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Politics this week

Aug 4th 2005
From The Economist print edition

America's new UN envoy

George Bush appointed **John Bolton** as America's ambassador to the United Nations. Senate Democrats had blocked Mr Bolton's nomination, but Mr Bush, who wants Mr Bolton to push through reforms at the UN, made use of his power to make appointments unilaterally during a congressional recess.

See article

A roadside bomb in **Iraq** killed 14 American marines and their interpreter, bringing the American death toll since the invasion to over 1,800. Mr Bush said a "ruthless" enemy would not stop America from accomplishing its mission.

AP

Mr Bush reconfirmed his opposition to **stem-cell research** and said he had achieved "the right balance between science and ethics". Last week, Bill Frist, the Senate majority leader and a possible presidential contender, outraged conservatives by endorsing legislation that provides funding for such research.

Congress finally passed an **energy bill** and sent it to Mr Bush, four years after he called for the legislation. The vast act, dubbed the "no-lobbyist-left-behind" bill, doles out a fortune to various industries.

California's Supreme Court ruled that same-sex couples are entitled to the same discounts and benefits, such as mortgages and membership perks, that businesses offer to married couples. The case was won by a lesbian couple seeking membership of a golf club.

Still trying

Talks in Beijing aimed at ending the crisis posed by **North Korea's** nuclear-weapons programme appeared to be edging towards a conclusion. America, Russia, Japan, China and the two Koreas are trying to find an agreement that would see North Korea give up its weapons programmes in return for security guarantees from America.

Japan's parliament was preparing for a knife-edge vote on the privatisation of Japan Post, the world's largest financial entity because of its savings and insurance businesses.

Islam Karimov, the authoritarian ruler of **Uzbekistan**, gave the United States 180 days to remove its military airbase from his country. He fell out with the Americans after they criticised his police for massacring up to 1,000 unarmed demonstrators in May.

See article

A lucky escape

More than 300 passengers and crew managed to escape from an Air France jet that skidded off a **Toronto** runway in a thunderstorm and burst into flames. Canada's transport minister called it a "miracle". Some 43 people were injured, but none seriously. It was the first major crash of an Airbus A340-300 since the model was launched in 1991.

President Álvaro Uribe of **Colombia's** chance of re-election next year took a leap forward after he

appointed Andrés Pastrana, his predecessor, as the country's new ambassador to the United States. The move is not only likely to bring him the vital support of Mr Pastrana's Conservative Party, but also neutralises his most dangerous potential rival.

A new European Union tariff on **imported bananas**, due to come into force next January, was declared illegal by the World Trade Organisation. Latin American banana exporters had argued that the tariff of *euro*253 ($308) a tonne, designed to protect exports from countries in the African, Caribbean and Pacific group, would have a "devastating effect" on their economies. The EU is to restart negotiations with the Latin American countries involved.

Reuters

Talk show

Russia said it would deny facilities to journalists from ABC after the American network broadcast an interview with a Chechen rebel leader, Shamil Basayev. Security officials were furious at the publicity given to Mr Basayev, who has claimed responsibility for the Beslan school attack in 2004, despite the offer of a reward of $10m for his capture.

Belarus jailed the leader of an ethnic **Polish** group for meeting a visitor from Poland's parliament. Tensions have been rising between the two countries of late; Belarus, which has a large Polish minority, accuses Poland of trying to foment political change within its borders.

See article

Two months before negotiations on **Turkey's** membership of the European Union are due to begin, the French prime minister, Dominique de Villepin, said it was "inconceivable" that talks could be held unless the country recognised the government of **Cyprus**. Turkish officials have rejected this linkage.

Police put on a show of strength in **London** in an attempt to reassure commuters. Amid reports of an increase in anti-Muslim violence in the month since the city was attacked by Islamist bombers, the government held the first in a series of meetings with community groups.

See article

No regime change

King Fahd ibn Abdel Aziz of **Saudi Arabia**, who assumed the throne in 1982 and was thought to be 83, died ten years after suffering a major stroke, and was succeeded by his half-brother Abdullah, the former crown prince and de facto ruler. Prince Sultan, another brother, who has been defence minister for 40-plus years, was named crown prince. No immediate changes are expected in the way the kingdom is governed, but talk of a need for generational change will get louder.

See article

Soldiers overthrew **Mauritania's** president, Maaouiya Ould Sid Ahmed Taya, who had been attending King Fahd's funeral, and set up a military council to end what it called a "totalitarian regime".

AFP

Iran swore in its new president, Mahmoud Ahmadinejad, and said it intended to reopen a uranium-conversion facility that had been sealed during talks with Britain, France and Germany on Iran's nuclear ambitions.

See article

The longstanding leader of **Sudan's** main southern rebel group, John Garang, who had been sworn in as the country's vice-president only three weeks earlier, was killed in a helicopter crash, raising fears that the peace deal that ended decades of war might unravel. Silva Kiir, his deputy, replaced him. Riots by angry southerners in Sudan's capital, Khartoum, caused at least 130 reported deaths and threatened the fragile peace accord between north and south.

See article

Ugandans voted to bring back a multi-party system after 19 years of “no-party” government under President Yoweri Museveni, who supported the change. Parliament voted last month to amend the constitution and allow Mr Museveni a further term in office.

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Business this week

Aug 4th 2005
From The Economist print edition

China bashing

China National Offshore Oil Corporation withdrew its $18.5 billion offer to buy **Unocal**, an American oil firm, blaming a backlash (on the grounds of energy security) from the United States Congress, which had created an "unacceptable risk" to the bid. CNOOC's was the largest takeover attempt in America by a Chinese firm. **Chevron**, which has made a lower offer, is now expected to buy Unocal.

See article

Kinder Morgan, a pipeline operator based in Houston, agreed to buy **Terasen**, a Canadian rival, for $3.1 billion. The deal, one of the largest American acquisitions in Canada, gives Kinder access to Alberta's oilsands, where output is expected to double—to 2m barrels a day by 2012.

Lachlan Murdoch unexpectedly resigned as deputy chief operating officer of **News Corporation**. The 33-year-old son of **Rupert Murdoch** was touted to succeed his father one day as News Corp's boss. Speculation focused on a family feud as the reason for Murdoch junior's departure; Murdoch senior replaces him as publisher of the *New York Post*.

See article

Nokia announced that Olli-Pekka Kallasvuo will be its new chief executive after Jorma Ollila steps down next June. Mr Kallasvuo, head of mobile-phone division, is credited with boosting Nokia's recent market share. Meanwhile, **Royal/Dutch Shell** said that Mr Ollila will become its non-executive chairman when he leaves the Finnish group.

Not enough bread

Atkins Nutritionals filed for bankruptcy protection. Hit by falling sales, competing food products and warnings from medical experts, the firm lost $341m in 2004. It is estimated that, at its peak, 9% of Americans were on the Atkins Diet.

After fierce criticism of the direct-to-consumer **advertising of prescription drugs** in America, Big Pharma's trade association announced voluntary limits to the practice. Eli Lilly and Pfizer both said they would stop advertising their anti-impotence drugs during the Super Bowl and other sporting events.

Scientists in South Korea announced that they had created the world's first **cloned dog**. "Snuppy" was created from a skin cell taken from an adult Afghan hound. Researchers said they hoped the breakthrough would help fight genetic disease.

Soccer crazy

Adidas, a German sports-goods firm, agreed to buy **Reebok**, an American rival, for $3.8 billion. The move will double Adidas's sales in North America and puts it in prime position to challenge Nike, the leader in sports apparel.

See article

Time Warner said it had established $3 billion in reserves to resolve litigation brought by shareholders unhappy with the controversial acquisition of AOL in 2000 (an agreement in principle has been reached in a class-action lawsuit). The reserve was factored into the media conglomerate's second-quarter results, which recorded a net loss of $321m. The company also intends to buy back $5 billion in shares

over the next two years.

Canadian Imperial Bank of Commerce, based in Toronto, agreed to pay $2.4 billion to settle allegations by Enron investors that it helped hide losses at the now bankrupt energy trader. The sum, the largest settlement in the case so far, follows large payouts from Citigroup and J.P. Morgan Chase earlier this year. Like those banks, CIBC does not admit wrongdoing.

A judge in Milan suspended Gianpiero Fiorani as chief executive of **Banca Popolare Italiana** for two months as part of a widening investigation into the takeover battle for **Banca Antonveneta**. BPI's chief financial officer was also suspended. The judge upheld an earlier impounding of BPI's near-30% stake in Antonveneta, which BPI bought to block a rival offer from **ABN Amro**, a Dutch bank.

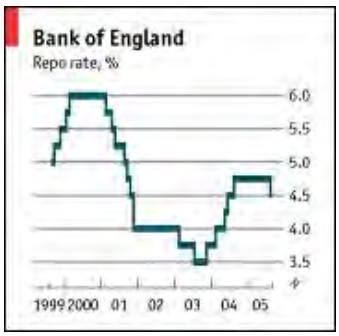
See article

Wim Duisenberg, the first head of the European Central Bank, who steered the euro during its difficult introduction from 1999, died at his home, aged 70. Often described as cantankerous, Mr Duisenberg spoke of his “dreams” and “emotions” for the single currency at the unveiling of euro banknotes.

The United States Treasury unveiled plans to reintroduce its **30-year bond**, starting early next year. New issues of long bonds were halted in 2001, but higher public debt has exposed the government to bigger refinancing risks; investment groups faced with long-term liabilities also benefit.

Down a step

As expected, the **Bank of England** cut its key interest rate by one-quarter of a percentage point to 4.5%, the first drop in two years. The decision followed recent evidence that British economic growth was at its weakest for 12 years; manufacturing is in recession.



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Letters

Aug 4th 2005
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
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Clear and present danger

SIR – Your "clear-eyed analysis" on the causes of terrorism in Iraq peers through a pair of rose-tinted lenses ("Baghdad's bombs, and London's", July 23rd). The United States and Britain may well now have "a moral obligation not to abandon its people to mayhem", but who unleashed the mayhem in the first place? Islamic terrorism has concentrated in Iraq because of the occupation by foreign troops. And by no means is the "indiscriminate slaughter of civilians" confined to terrorist suicide bombers. A substantial proportion of the thousands of Iraqi civilians who have died since the conflict began have been killed by the United States military's indiscriminate use of firepower, such as in Fallujah where hundreds fell victim to artillery and missile strikes.

It is also nonsense to believe that coalition forces are diligently going about their business of pacifying and helping poor Iraqis. They control (or try to control) less than 1% of Iraq, in which they hide within huge, heavily guarded bases. Ordinary Iraqis wishing to enter protected areas are treated as second-class citizens and shot at if they get too close. Moreover, how can you ever win a war if the first priority is not to fight it? Washington's strategy, set far from the frontline, is to keep the American body count as low as possible, thus keeping the public's dissatisfaction over Iraq at a tolerable level.

Michael Skorupski
Paris

SIR – Withdrawal from Iraq will not end terrorist attacks on Western targets. But that fact does not excuse those who promoted this war. Nor does it recommend their counsel on how to proceed. A "clear-eyed analysis of the present" argues against following the advice of those (like *The Economist*) who are responsible for "the errors of the past".

John Poteet
Cookeville, Tennessee

SIR – Charlemagne assumes there is much substance to the view that "spreading democracy is the only lasting way" of defeating the threat from radical Islam (July 23rd). This notion, widely held by governments in the West, overlooks some recent events. Those responsible for the bombings in London were not suffering under an oppressive, authoritarian regime. Neither are the militant Muslim extremists affiliated to Jemaah Islamiah in Indonesia, who became a threat after the shift from dictatorship to democracy. They perpetrated the Bali bombing in October 2002 that killed 202 people, three years after Indonesia's first democratic elections were held.

David Close
Adelaide, Australia

SIR – So Europeans are sceptical that America's "ringing moral commitments" to democracy in the Middle East will be partly compromised by its "protection" of Israel. Israel is a vibrant, Western-style democracy, with universal suffrage, freedom of the press and freedom of religion—supporting Israel does not contradict the freedom agenda.

David Williams
Brookline, Massachusetts

SIR – If sacrificing oneself as a suicide-bomber is such a glorious thing, resulting in heavenly rewards,

why don't Osama bin Laden, Abu Musab al-Zarqawi and those radical imams who advocate violence, likewise sacrifice their lives? Do these people really believe that Allah approves and rewards men who engage in the murder of innocent people, including children?

John Haggerty
Woodland Hills, California

Education and class

SIR – While insufficient education is a driving force behind most problems of class mobility, I do not believe that elite institutions are as guilty as you seem to suggest (A survey of America, July 16th). It is true that the representation of students from upper-income brackets at elite universities is rising, but these colleges are making a more concerted effort to diversify their student intake and recognise that numerous exogenous factors inhibit lower-income applicants. Admissions officers have begun to place emphasis on the aspects of an application that cannot be inflated by access to superior resources (the SAT test being the primary example). Many of these institutions, blessed with ever growing endowments, have adopted a policy of need-blind admissions, which has allowed them to expand the applicant pool and offer more opportunities to more students. It is secondary education, and the methods by which it is funded, not universities, that lie at the heart of the growing class divide.

Sean Murray
Madison, New Jersey

Leaders of men

SIR – The idea that we need to worry about the lack of women at senior levels of management because they are better than men at "multi-tasking, team-building and communicating" is missing the point and risks simply exchanging one set of stereotypes for another ("The conundrum of the glass ceiling", July 23rd). The fact is that, in a service economy, the staffing costs of a firm can be greater than its capital costs. So selecting your leadership from only half the population is inefficient as it ignores the wider pool of talent and ultimately erodes true competition. And yet the glass ceiling continues to be a reality.

It is critical that businesses factor in diversity when reviewing their leadership and career plans, not because it is the "nice" thing to do but because it maintains competitive advantage. Moreover, innovations such as flexible and part-time working, crucial for redesigning the culture of work, should be aimed at increasing the productivity of all employees at a firm and not just ticking diversity boxes, which can simultaneously marginalise whole sections of a workforce. As long as diversity initiatives are seen as accommodating only women with children, the glass ceiling will not break.

Penny de Valk
Managing Director
Ceridian HR Consulting
London

Textual analysis

SIR – What do you mean, "Saving Private Ryan" was banned by some TV stations because it contained too much effing swearing ("Scrubbing the airwaves", July 23rd)? Although the film graphically portrayed the violence of war, there was an almost complete absence of effing swearwords. Steven Spielberg was effing chickens**t for avoiding the real language that soldiers use. The reason the film wasn't shown is because it contains a scene that depicts American troops shooting Germans who had surrendered, and that doesn't fit with our heroic image. So next time you quote a movie, please make sure you've watched the [expletive deleted] thing first.

Anthony Sweeney
Darien, Connecticut

SIR – Future historians may well choose a moment during the presidency of George Bush as the start of the decline and fall of the United States. However, I sincerely doubt that they will cite the broadcast of Janet Jackson's breast as a contributing factor.

John Byrne
Pasadena, California

SIR – A more serious problem than sex and bad language on TV may be the many hours spent watching

trivia that has led to the dumbing-down of America's youth.

Humphrey Taylor
New York

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Defending video games

Breeding evil?

Aug 4th 2005
From The Economist print edition

There's no solid evidence that video games are bad for people, and they may be positively good

"IT IS an evil influence on the youth of our country." A politician condemning video gaming? Actually, a clergyman denouncing rock and roll 50 years ago. But the sentiment could just as easily have been voiced by Hillary Clinton in the past few weeks, as she blamed video games for "a silent epidemic of media desensitisation" and "stealing the innocence of our children".

The gaming furore centres on "Grand Theft Auto: San Andreas", a popular and notoriously violent cops and robbers game that turned out to contain hidden sex scenes that could be unlocked using a patch downloaded from the internet. The resulting outcry (mostly from Democratic politicians playing to the centre) caused the game's rating in America to be changed from "mature", which means you have to be 17 to buy it, to "adults only", which means you have to be 18, but also means that big retailers such as Wal-Mart will not stock it. As a result the game has been banned in Australia; and, this autumn, America's Federal Trade Commission will investigate the complaints. That will give gaming's opponents an opportunity to vent their wrath on the industry.

Scepticism of new media is a tradition with deep roots, going back at least as far as Socrates' objections to written texts, outlined in Plato's *Phaedrus*. Socrates worried that relying on written texts, rather than the oral tradition, would "create forgetfulness in the learners' souls, because they will not use their memories; they will trust to the external written characters and not remember of themselves." (He also objected that a written version of a speech was no substitute for the ability to interrogate the speaker, since, when questioned, the text "always gives one unvarying answer". His objection, in short, was that books were not interactive. Perhaps Socrates would have thought more highly of video games.)

Novels were once considered too low-brow for university literature courses, but eventually the disapproving professors retired. Waltz music and dancing were condemned in the 19th century; all that twirling was thought to be "intoxicating" and "depraved", and the music was outlawed in some places. Today it is hard to imagine what the fuss was about. And rock and roll was thought to encourage violence, promiscuity and satanism; but today even grannies buy Coldplay albums.

Joystick junkies

The opposition to gaming springs largely from the neophobia that has pitted the old against the entertainments of the young for centuries. Most gamers are under 40, and most critics are non-games-playing over-40s. But what of the specific complaints—that games foster addiction and encourage violence?

There's no good evidence for either. On addiction, if the worry is about a generally excessive use of screen-based entertainment, critics should surely concern themselves about television rather than games: American teenage boys play video games for around 13 hours a week (girls for only five hours), yet watch television for around 25 hours a week. As to the minority who seriously overdo it, research suggests that they display addictive behaviour in other ways too. The problem, in other words, is with them, not with the games.

Most of the research on whether video games encourage violence is unsatisfactory, focusing primarily on short-term effects. In the best study so far, frequent playing of a violent game sustained over a month

had no effect on participants' level of aggression. And, during the period in which gaming has become widespread in America, violent crime has fallen by half. If games really did make people violent, this tendency might be expected to show up in the figures, given that half of Americans play computer and video games. Perhaps, as some observers have suggested, gaming actually makes people less violent, by acting as a safety valve.

Neophobes unite

So are games good, rather than bad, for people? Good ones probably are. Games are widely used as educational tools, not just for pilots, soldiers and surgeons, but also in schools and businesses (see article). Every game has its own interface and controls, so that anyone who has learned to play a handful of games can generally figure out how to operate almost any high-tech device. Games require players to construct hypotheses, solve problems, develop strategies, learn the rules of the in-game world through trial and error. Gamers must also be able to juggle several different tasks, evaluate risks and make quick decisions. One game, set in 1930s Europe, requires the player to prevent the outbreak of the second world war; other games teach everything from algebra to derivatives trading. Playing games is, thus, an ideal form of preparation for the workplace of the 21st century, as some forward-thinking firms are already starting to realise.

Pointing all this out makes little difference, though, because the controversy over gaming, as with rock and roll, is more than anything else the consequence of a generational divide. Can the disagreements between old and young over new forms of media ever be resolved? Sometimes attitudes can change relatively quickly, as happened with the internet. Once condemned as a cesspool of depravity, it is now recognised as a valuable new medium, albeit one where (as with films, TV and, yes, video games) children's access should be limited and supervised. The benefits of a broadband connection are now acknowledged, and politicians worry about extending access to the have-nots. Attitudes changed because critics of the internet had to start using it for work, and then realised that, like any medium, it could be used for good purposes as well as bad. They have no such incentive to take up gaming, however.

Eventually, objections to new media resolve themselves, as the young grow up and the old die out. As today's gamers grow older—the average age of gamers is already 30—video games will ultimately become just another medium, alongside books, music and films. And soon the greying gamers will start tut-tutting about some new evil threatening to destroy the younger generation's moral fibre.

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Medicine

Catching the flu

Aug 4th 2005
From The Economist print edition

The world must prepare for pandemic influenza

EPA

A PAIR of dice, rolled again and again, will eventually produce two sixes. Similarly, the virus that causes influenza is constantly changing at random and, one day, will mutate in a way that will enable it to infect billions of people, and to kill millions. Many experts now believe a global outbreak of pandemic flu is overdue, and that the next one could be as bad as the one in 1918, which killed somewhere between 25m and 50m people. Today, however, advances in medicine offer real hope that another such outbreak can be contained—if governments start preparing now.

New research published this week (see article) suggests that a relatively small stockpile of an anti-viral drug—as little as 3m doses—could be enough to limit sharply a flu pandemic if the drugs were deployed quickly to people in the area surrounding the initial outbreak. The drug's manufacturer, Roche, is talking to the World Health Organisation about donating such a stockpile.

This is good news. But much more needs to be done, especially with a nasty strain of avian flu spreading in Asia which could mutate into a threat to humans. Since the SARS outbreak in 2003 a few countries have developed plans in preparation for similar episodes. But progress has been shamefully patchy, and there is still far too little international co-ordination.

A global stockpile of drugs alone would not be much use without an adequate system of surveillance to identify early cases and a way of delivering treatment quickly. If an outbreak occurred in a border region, for example, a swift response would most likely depend on prior agreements between different countries about quarantine and containment.

Reaching such agreements is rarely easy, but that makes the task all the more urgent. Rich countries tend to be better prepared than poor ones, but this should be no consolation to them. Flu does not respect borders. It is in everyone's interest to make sure that developing countries, especially in Asia, are also well prepared. Many may bridle at interference from outside. But if richer nations were willing to donate anti-viral drugs and guarantee a supply of any vaccine that becomes available, poorer nations might be willing to reach agreements over surveillance and preparedness.

Simply sorting out a few details now will save lives (and recriminations) later. Will there be enough ventilators, masks and drugs? Where will people be treated if the hospitals overflow? Will food be delivered as normal? Too many countries have no answers to these questions.

Get moving

Given how much money rich countries have spent on preparing for bioterror attacks, it is surprising how little attention they have paid to the possibility of a flu pandemic, which may be likelier and which, if it happens, would probably kill more people. The costs of buying more anti-viral drugs, investing in vaccines, preparing national responses and forging an international plan would not be very high, but these things could make all the difference.

Some suggest that SARS was a useful warning. And yet it has left many with the unfortunate impression that, even after a bit of bungling, a new disease can be easily contained. But flu is a far bigger danger than SARS because it moves so much faster. So, too, must the world's governments if they are to prevent death on a massive scale.

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Saudi Arabia

More of the same won't do

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From The Economist print edition

Time is running out for the House of Saud

AP

IN ONE sense, nothing has changed. King Fahd ibn Abdel Aziz al-Saud, who died this week (see article), had had nothing to do with running Saudi Arabia since a stroke incapacitated him in 1995; his younger half-brother Abdullah, moving seamlessly from crown prince to king, will simply rule on. But the succession raises pressing questions about the future of the House of Saud—and about whether the West should still rely on the present Saudi establishment as a bulwark against the ever-more-frightening phenomenon of global Islamist terror. The broad answer is yes. But the new monarch, a mere 81 years old or so, must strive much harder to bring his kingdom into the modern world—or the whole Saudi edifice may come tumbling down and make the Middle East even messier and more dangerous than it is already.

In any event, the House of Saud must lose power—gracefully and gradually or in violence and humiliation. King Abdullah cannot afford to sit tight, praying that the sky-high oil prices which have temporarily lessened the pressure for change (see article) will let him keep his people more or less quiescent for ever. It is probably too late to stop his ailing and equally ancient brother, Prince Sultan, who has been defence minister for 40-odd years and has now been named crown prince, from succeeding him. But the new king must, at the very least, prepare for a younger generation of princes to skip the geriatric queue of greedy and reactionary royal brothers, formally next in line for the throne, who are patently unable or unwilling to prod the kingdom towards modernity.

King Abdullah, as crown prince but de facto ruler, has shown signs of tugging the kingdom in that direction, but too slowly, for fear of upsetting the ferociously reactionary Wahhabist clerics with whom the dynasty's founder (and father of the last four kings), King Abdel Aziz ibn Saud, struck a historic deal that has kept people passive and the House of Saud in power. The late King Fahd moved cautiously to modernise the economy and made the first tiny steps towards a semblance of democracy by appointing a consultative council. Crown Prince Abdullah expanded the council and even allowed it to question ministers—within limits. More recently, he let half the seats on the country's toothless local councils be elected on multi-candidate (though non-party) slates, with women excluded from both voting and standing. Even the vexed question of women's rights is, in whispers, being addressed. But there is still no public accountability. Nobody, bar a clutch of top royals, knows how many billions of dollars the 7,000-odd princes and their 20,000 or so hangers-on get from the country's oil revenues. Despite the current bonanza from oil, ordinary people's average incomes have dived in the past two decades. If the oil price were to slump, resentment against the House of Saud might boil over.

Already, Osama bin Laden, a scion of one of the country's richest non-royal families, has captured the minds of many of the kingdom's have-nots (and quite a few of the haves), with his rants against corruption and his call for a return to a Utopia of puritanical piety and for war against “Crusaders and Jews”, with whom the royal family has wickedly consorted. Moreover, the House of Saud, or at least an influential part of it, had been happy to let the jihadists spread their word and wage their war abroad, in New York as well as Afghanistan. Only when they began killing people in Saudi Arabia itself did the ruling establishment begin to tackle terrorism with real vigour. And plainly there is quite a pool of Saudi jihadists, several thousand of them now in Iraq: many will come back with the aim of overthrowing the royal family. The new king knows he must tackle them—and the causes that have spawned them.

But how? The United States is trying to spread the notion of democracy as the main antidote to Islamist terror. Some of President George Bush's advisers argue that the Saudi establishment, which many of them blame for nourishing Islamist hatred against the West (15 of the 19 hijackers who perpetrated the

atrocities in America in September 2001 were Saudi), should be ditched. Too bad, they say, if this corrupt regime is swept away by radical Islamists: democracy means that people you dislike are sometimes elected.

Now get on with it

That is not the only alternative, or the most desirable one. For all his much-vaunted “freedom agenda”, Mr Bush is a realist, understandably wary of dumping friendly dictatorships in places such as Egypt, Pakistan or Saudi Arabia for fear of landing up with something a good deal worse, at least from America's point of view. And in a country that provides the world with so much of its energy, managed change would plainly be better than change of the violent revolutionary kind. But change there must be. Mr Bush should now urge the new king to move a lot faster than he dared to do as crown prince—for instance, by bringing in a more tolerant educational system, facing down the most bigoted clerics, widening the scope of representative government, opening the budget to scrutiny, curbing royal privilege, giving women a voice and a vote, and sowing a culture of tolerance, pluralism and debate. The consultative council should become a properly elected parliament, perhaps with a college of princes serving as an upper chamber. In the end—“ready” or not—Saudis have as much right to democracy as Iraqis, or indeed anyone else.

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Sudan

Death and division

Aug 4th 2005
From The Economist print edition

A peacemaker dies where peacemakers are in short supply

EPA

FEW African freedom fighters have recently won as much praise as John Garang, who led a rebellion in southern Sudan for 22 years and was killed in a helicopter crash last week, just as he and his people seemed set to enjoy the fruits of victory (see article). According to George Bush, he was a "visionary leader and peacemaker" for his fellow black southerners, most of them Christian or animist, in their struggle against persecution by northern Sudan's ruling class of Muslim Arabs. Many right-wing American Christians go further, seeing in Africa's longest war a biblical struggle. Its recent conclusion, with the southerners being promised autonomy for six years followed by an option to secede, and with Mr Garang sworn in three weeks ago as the country's top vice-president, looked like a victory of good over evil.

If Africa's wars were so simple, they might be simpler to end. Mr Garang was an effective commander. Fed by a sense of grievance and little else, his bean-pole fighters controlled the southern third of Africa's biggest country. He was also a skilled diplomat, charming support from America and most of Sudan's neighbours—including two, Ethiopia and Eritrea, even as they fought each other. Yet, buoyed by these successes, he was slow to negotiate settlements with either the government or his rivals in the Sudan People's Liberation Army (SPLA). Crushing dissent and sparking fratricidal conflict, he shared responsibility for the deaths of the war's 2m or so victims—most of whom, incidentally, were pagan.

Not quite a saint

To be sure, having been persuaded, chiefly by America, to plump for peace, Mr Garang threw himself into the negotiations: they would not have succeeded otherwise. Yet, if Sudan's new peace is to stick, there is much to do, and it is not clear whether Mr Garang would have done it. To prevent fresh fighting between southerners, several tribal militias, including those formerly employed by the government, had to be placated, but Mr Garang refused to deal with these old enemies. To aid co-operation between north and south and to foster the SPLA's re-emergence as a civilian administration, a national oil commission needed founding: Mr Garang, prematurely and on dubious authority, had awarded an oil concession to a British company. In Rwanda, Uganda, Eritrea and Ethiopia in recent years, power has been grabbed by well-organised rebels who, despite the odd flawed election, have failed to shed their undemocratic ways. There is no reason to assume that Mr Garang would have done better.

What then of his successor, a former rebel called Salva Kiir? He has the respect of many fighters, but as Mr Garang's deputy he was excluded from the last stages of the peace negotiations, so has little experience of the power-brokers in Khartoum, Sudan's capital, or of the western governments nudging the process along. Lacking Mr Garang's charisma, he would struggle to rule in similarly autocratic fashion. But in part because of this, Mr Kiir could succeed. In a series of bust-ups with Mr Garang during the latter stages of peace talks, he called on the old autocrat to rule openly and democratically. Mr Kiir must heed his own advice. And he needs help. To deter troublemakers on all sides, the 10,000 UN peacekeepers promised to the south must hasten there. Sustained American diplomacy will also remain vital to keep the spoilers in Khartoum in check.

With such provisions, peace in the south may, just, endure. But peace in another, currently even more violent, part of Sudan, the western region of Darfur, looks more elusive than ever. For two years, the government has sponsored an Arab militia known as the *janjaweed* to mass-murder the African

tribespeople it accuses of backing insurgents there. Up to 400,000 have been killed and over 2m herded into camps. In recent months, the rate of killing has slowed. In part, this suggests that the government is heeding warnings from America, which has accused it of genocide, and from the International Criminal Court, which has compiled a list of people wanted for war crimes in Darfur. Meanwhile, the mediation of the African Union (AU) between government and rebels is in danger of drifting. While the AU has deployed 2,700 peacekeepers and is soon to send another 5,000, it has too few vehicles and a mandate only to observe, so it has saved few lives.

By a conservative estimate, at least 12,000 peacekeepers are needed to keep a modicum of peace in Darfur, yet the AU cannot meet this target for at least six months. To cover the shortfall, a bridging-force of troops from NATO, which is already providing logistical support, should be urgently dispatched. America must meanwhile keep its stern eye on the government in Khartoum, which must be shamed or squeezed into disarming the militiamen as it has promised. Nor should it be allowed to use riots by southerners in Khartoum in the wake of Mr Garang's death as an excuse to go back on its agreement with the south. Failure to make peace in the west increases the risk of failure in the south—and vice versa. It was partly to deflect criticism of its behaviour in Darfur that the government made peace with the SPLA. Uncudgelled, it could reignite war not only in the west but in the south too.

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Race in America

The black hole

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Some of the things that helped blacks 40 years ago are now obstructions

AP

FORTY years ago this week, President Lyndon Johnson signed the Voting Rights Act—and began to complete a process that should have been resolved at Gettysburg a century earlier. After the civil war black Americans were free to vote, but southern whites invented a myriad of restrictions to stop them doing so, forcing them to pass impossible literacy tests ("How high is high?") and threatening complainers with the sack or much worse.

The Voting Rights Act outlawed such intimidation, allowing millions of black southerners to vote (most ever since have plumped for Johnson's Democrats). Together with the previous year's Civil Rights Act, it led a revolution to change the two-tone nature of American society, in which whites and blacks lived separate and unequal lives. This entailed not just ending legal white supremacy (allowing blacks, for instance, to sit at lunch counters, occupy the front seats on buses, and vote), but also devising programmes of positive discrimination to push blacks forward. Affirmative-action programmes were set up to help black students to get places at universities and black-owned businesses to win government contracts.

This revolution was a magnificent act of empowerment (see article). Blacks have surged forward. Nobody finds it odd to meet a black chief executive, general or judge. All that is missing is a black on a presidential ticket; fittingly, the person with the best chance of gaining that honour in 2008, Condoleezza Rice, was a close friend of one of the girls killed in an infamous church bombing in Birmingham, Alabama.

The canard of Jim Crow

But is the civil-rights revolution still working? For most black politicians, nearly all of whom (unlike Ms Rice) are connected with the left wing of the Democratic Party, this is still a heretically "racist" question, asked by people who want to turn back the clock to Jim Crow. That is a disgraceful canard. No respectable critic—least of all this newspaper—wants to reintroduce programmes that discriminate against blacks. What is at issue is the programmes that discriminate in their favour—and there are both principled and practical reasons for Americans of all colours to doubt that these still help.

The principled reasons start from the perspective that the colour of people's skin is a bad basis for social engineering. Even 40 years ago, it was not easy to explain to a poor white student why his university place should go to a richer black one. Nowadays, there are many more rich blacks; and race in America is patently no longer a two-tone issue.

Last week, when the Department of Justice invoked the Voting Rights Act in Boston, it was to protect the rights of Hispanics and Asians. Blacks are no longer America's biggest minority; Latinos have skipped past them. And do these old terms make sense anyway? In places like California, where races are gloriously jumbled up, everybody is a minority of some sort, so trying to divide them into racial groups has become an increasingly Orwellian job. Does a Guatemalan grandmother score more than an Asian uncle? Is a recent arrival from Ethiopia as black as the grandson of a sharecropper?

Many black leaders would insist that, thanks to the legacy of slavery and Jim Crow, they are still owed special treatment. But it is here that the practical set of doubts appears. Put bluntly, although most American blacks are doing better, too many are doing badly. One black American man in three ends up

in jail. The proportion of black children born outside wedlock has risen from a quarter in the 1960s (then considered an outrage) to two-thirds. Indeed, blacks score disproportionately badly in virtually everything to do with crime, education and family structure.

It is hard to blame all this on white racism. For instance, although blacks are still paid less on average than whites, some studies have found that blacks are paid as much as or even more than whites with the same educational qualifications. There is also growing evidence that the very policies that helped blacks 40 years ago now contribute to their problems.

Government activism has helped expand the black middle class, but it has also created dependence on government and dissuaded blacks from pursuing the same business road to success as Latinos and, especially, Asians. Affirmative action has improved the lives of some blacks; but it has also over-promoted others (helping push up the drop-out rate at universities); it has encouraged blacks to hold themselves to lower standards than other groups; and it has allowed whites—often unfairly—to cast aspersions on the achievements of blacks who have earned success purely on merit and talent.

Too tied to the Democrats

Even the Voting Rights Act has been abused, becoming an excuse for politicians to gerrymander absurdly shaped “black” congressional districts, which elect black Democrats. There is, of course, nothing wrong with voting for Democrats—*The Economist* even endorsed one for president last year. But reliance on one party lets down blacks dramatically. For instance, blacks, stuck in grotty schools with unsackable teachers, support school vouchers. But Democrats, who rely massively on the teachers' unions, have systematically opposed such reform. Meanwhile, Republicans, who win only one in ten black votes, have little incentive to divert money from richer whiter school districts.

So celebrate this week's anniversary as a great American achievement. But hope that, at the next milestone in 2015, America's black leaders are still not looking back to the 1960s—and that a few more blacks will have joined President Rice in the Republican Party.

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British politics

The parable of the supermarkets

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Lessons for the Tories from Sainsbury's struggle against Tesco

ONCE Britain's natural party of government, the Conservatives suffered a third disastrous electoral defeat in May. They are in the throes of (yet another) leadership contest. The Labour Party, still fresh from victory, is rampant. Where, despairing Tories wonder, should they turn next?

The answer, perhaps surprisingly, lies in the food retailing sector. The parable of Britain's supermarkets holds a useful lesson for the Tories.

J. Sainsbury was Britain's top food store until Tesco overtook it a decade ago. Like the Tories, Sainsbury's lost to an outfit that took advantage of its complacency and stole its clothes. Like the Tories, it failed to develop a market beyond prosperous people in the south of England. And, as with the Tories, a revival of Sainsbury's fortunes depends upon that bitter lesson: its rival's triumphs.

Good politics costs less

Back in the early 1990s, when the Conservative Party was Britain's favourite pedlar of political fare, Labour was stuck with a downmarket brand that scared off the middle-classes. It took a hard look at what the Tories were offering, copied their best policies and ditched the unpopular, old-fashioned socialist range it used to stock. It then used new, hi-tech marketing techniques to sell its policies to voters—and duly won a thumping election victory.

At about the same time, cheap and cheerful Tesco usurped Sainsbury's position as Britain's top supermarket. It did so by jettisoning its traditional base and moving into the centre-ground, investing in focus groups and hi-tech surveys to gauge attitudes (see article). "In overall terms, we should aim to be positively classless," declared its leader. (Terry Leahy that is, not Tony Blair.) The strategy has been successful—so successful that the competition authorities have felt bound to investigate.

Sainsbury's and the Tories have both struggled ever since. Both ploughed money into IT—the boss at Sainsbury's laments his predecessor's lavish spending and the system the Tories bought off America's Republicans failed them in May's poll. Both rebranded themselves: the Tories got a new logo and Sainsbury's binned its foul orange-and-brown colour scheme. Now the Tories are split between those who think power will come from elbowing Labour aside in the centre-ground and those who think they should eschew anything Blairite and seek to be distinctively Conservative.

Sainsbury's trolley shows the way to the checkout. The store has worked hard to convince shoppers it is cheap. Its ads replaced John Cleese, a cravat-wearing ex-Python, with the blokish Jamie Oliver, a chef for the average Brit. In short, it has concluded that most shoppers are to be found in the centre aisle—and its most recent results hint at an improvement.

The Tories, similarly, need to become the party of the many while keeping their commitment to lower taxes. Unless they do so, Labour will retain its monopoly of power. That's a problem the Tories have to solve for themselves: in politics, the Competition Commission can't help.

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Blacks in America

Free to succeed or fail

Aug 4th 2005 | ATLANTA AND WASHINGTON, DC
From The Economist print edition

AP

Forty years after the Voting Rights Act, African-Americans are freer, richer and more influential. But hardly anyone is happy about the state of black America

"HOW many bubbles are there in a bar of soap?" In the old South, if you were black and could not answer this question, or pass some other equally absurd "literacy test", you could not vote. That was one way southern whites got round the American constitution's 15th amendment, ratified in 1870, which promised that no citizen should be denied a vote on account of race or colour.

There were also poll taxes that blacks could not afford, and plain intimidation. Those who tried to register could be fired from their jobs, beaten or even killed. So although most blacks had been able to vote in 1880, at the height of post-civil-war reconstruction, the proportion had tumbled by the early 20th century to 2% or less in such states as Alabama, Mississippi and the Carolinas.

The Voting Rights Act of 1965 changed the picture entirely. Signed by President Lyndon Johnson 40 years ago this week, it burned away a mountain of racist regulations and allowed an unprecedented degree of federal intrusion to ensure that blacks could vote.

To grasp its importance, together with that of the Civil Rights Act that was passed the previous year, it is worth recalling just how harsh life was for blacks under segregation. Many still worked the same cotton fields where their slave-ancestors had sweated, were paid in scrip redeemable only at extortionate plantation-owned stores, and ended each year deeper in debt. Martin Luther King was shocked to meet sharecroppers who had never seen the American currency. Blacks also endured the constant threat of violence, including lynching, for the merest hint of a challenge to white dominance.

From the 1950s, an increasing number decided to challenge it anyway. Some paid with their blood: an unprovoked attack by state troopers on marchers in Selma, Alabama in March 1965 spurred Congress to pass the Voting Rights Act. "Some people say nothing has changed [since then]," says Congressman John Lewis, who was beaten during that march. "I feel like saying: 'Come and walk in my shoes'."

The ballot has given African-Americans some political influence. Blacks make up 10% of the House of Representatives (compared with 13% of the population), though only one of the 100 senators. More generally, the civil-rights movement helped to transform American attitudes. Overt racism, common 40 years ago, is now taboo. In 1958, 96% of white Americans said they disapproved of marriages between blacks and whites. Today, hardly anyone would admit to such a thought. A recent Gallup poll found that 65% of blacks and 72% of whites thought that black-white relations were either "very" or "somewhat" good.

Freed from Jim Crow's claws, blacks have grown more prosperous. In 1940, 58% of black women with

jobs worked as maids. Now, only 1% do. And the median black female income has risen from 36% of a white woman's in 1940 to about 95%. For black men, the improvement, though less marked, is still substantial, from 41% to about 72% of white male earnings.

Some blacks have done very well indeed. According to the Census Bureau, in 2003 there were 26,000 black chief executives. Blue-chip firms such as Merrill Lynch, American Express and Time Warner all have black bosses, as do cities such as Detroit, Washington, DC and even Columbus, Ohio, where blacks are only a quarter of the population. Blacks are well-represented in the top ranks of the armed forces, and both the current and former heads of the State Department are black. The existence of a black upper class is not new. What has changed is that black success is now unexceptional. Millions of blacks have joined the middle class, mostly through talent and hard work.

In Atlanta, a city whose metropolitan area is 62% black, the mood is optimistic. Lisa Borders, the president of the Atlanta city council (and the grand-daughter of a noted civil-rights preacher), reckons that the black middle class probably does better in her city than anywhere else.

Partly, no doubt, this is because the local economy is thriving: Atlanta is the home not only of Coca-Cola and CNN, but also of the world's busiest airport. Partly it is because, under black mayors in recent decades, blacks tidily scooped up the patronage jobs. But it is also because blacks face fewer obstacles. Blacks and whites work together in tolerable harmony. A young black Atlantan with drive and a diploma can largely be “master of his or her destiny”, says Ms Borders.

Beneath the surface, however, Ms Borders detects “a dull roar” of racial tension. Local politics is peppered with thinly-disguised racial tiffs, over issues such as how much public money will be spent in which parts of town, and whether black or white firms will get the contracts. Atlanta, like most American cities, is less segregated than it was 30 years ago, but there are still easily identifiable “black” and “white” areas, and the two groups seldom pray together. “The most segregated hour is 10am on a Sunday,” says Ms Borders.

The vote has given blacks a voice in how they are governed, and the dignity that comes from full citizenship. But three blights on black America have proved persistent: violent crime, family breakdown and a failure by black children to fulfil their academic potential.

Crime doesn't pay

“If you were black,” said the cabdriver, “I wouldn't take you there. They hire you to come there and then kill you.” The address in question was Bowen Homes, a grim public-housing project in Atlanta.

A clearer example of racial discrimination would be hard to imagine. But the cab-driver was from Ethiopia, and the practically all-black residents of Bowen Homes seem to share his dim view of their neighbourhood. “The young men are bad round here,” says Sabrina Lowe, a young grandmother. She shivers at the memory of a recent stabbing.

The Department of Justice estimates that one black man in three will go to jail at some point during his life—more than five times the rate for white men. Part of the disparity is because black men are more likely to be stopped and searched for drugs. The war on drugs “has taken on overtones of a race war”, argues Bakari Kitwana, author of “The Hip-Hop Generation: Young Blacks and the Crisis in African-American Culture”. Most blacks believe, too, that blacks are punished more severely than whites for similar offences.

But a large part of the disparity between black and white rates of incarceration stems from real differences in criminal behaviour. For example, the Department of Justice says that in 2002 blacks were seven times more likely than whites to commit murder, which is surely the most accurately recorded crime. And it is blacks who suffer most from black criminality, both directly (they are six times more likely to be murdered than whites) and indirectly, because it fuels prejudice. The law-abiding majority of young black men find it humiliatingly hard to hail a cab.

Contrary to popular belief, ghetto crime pays very badly. Sudhir Venkatesh, then of the University of Chicago, embedded himself with the Black Gangster Disciple Nation, a drug-dealing gang, and discovered that although a handful of bosses were pulling in $500,000 a year tax-free, their thousands of footsoldiers made only $3.30 an hour—less than the minimum wage. And during the four-year period Mr Venkatesh analysed, each footsoldier had a one in four chance of being murdered.

Given such dire working conditions and the buoyancy of the American labour market, it ought to be

possible to tempt gangsters to go straight simply by putting them in touch with the nearest Burger King. Alas, it is more complicated than that. For one thing, legitimate businesses tend to shun the ghetto. And since they do, ghetto youths often grow up without positive adult role models—only dreams that they will one day be a drug boss, drinking Cristal with a bevy of mistresses.

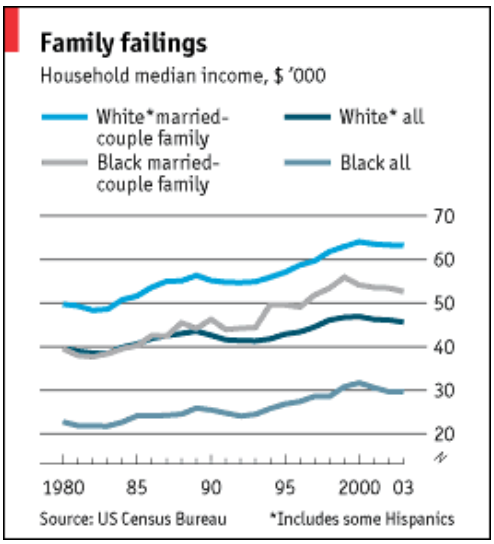
Atlanta is trying to tackle this problem by changing the way public housing is administered. The old model was to build an apartment block, pack it with welfare recipients and watch it sink into hopelessness. Now many such blocks have been bulldozed, and the city is joining private developers to build "mixed-income" housing on the sites. In a typical complex, no more than 40% of apartments are occupied by families receiving public assistance to pay the rent. The rest are let on the open market. Those who get help with the rent are obliged to find work and will eventually be evicted if they do not.

Renée Glover, head of the Atlanta Housing Authority, boasts that crime has dropped by 90% or more in all the projects that have been redeveloped in this way. Slums where people used to sleep in bath-tubs to dodge the bullets are now clean and tranquil, says an aide. And twice as many of the original inhabitants now have jobs. Breaking up "concentrations of poverty" helps the poor prosper. Unfortunately, another type of break-up has the opposite effect.

Baby Mammas and Papas

In the same year the Voting Rights Act was passed, Senator Daniel Patrick Moynihan published an alarm-call about the disintegration of the black nuclear family. Children who grew up with only one parent, he believed, were far more likely to end up poor, illiterate or in jail than those with two parents. At the time, a quarter of black children were born out of wedlock. Forty years later, the figure is two-thirds.

There are still people who argue that this does not matter. But not many. Leah Sears, Georgia's first black female chief justice, is forthright about it. "We have to get out of this culture where it doesn't matter if you get married, just if you go on and be somebody's 'Baby Mama'," she told the *Atlanta Journal-Constitution*. "Most children with two parents just do better." Single parenthood is not ideal for adults, either. Married black couples earn 83% as much as their white counterparts, but 39% of black single mothers are poor (see chart).



The causes of black family breakdown are complex. Some men choose not to assume paternal responsibilities. (Or, in the words of Gillis Triplett, a fiery black pastor, "For far too many of our sons, their measurement of manhood is determined by their ability to...tag the booty of multiple sex partners.") Some women doubt the men are up to responsible fatherhood. Black women tend to be better educated than black men, and they are more likely to have stable jobs. This means that, unless they "marry out", they often have trouble finding a suitable partner. "When infant mortality, homicides, unemployment, education level and incarcerations are taken into account, there are five black men for every ten black women," reckons Debra Dickerson, author of "The End of Blackness: Returning the Souls of Black Folk to Their Rightful Owners". She adds that Condoleezza Rice epitomises the "over-accomplished black woman home alone with her bulging résumé."

The good news is that the black illegitimacy rate may have peaked—it has barely risen since 1990. The bad news is that the peak is a lofty plateau, and no one knows how to lower it.

AP

Needed: better schools, better teachers, more homework, fewer excuses

Wasting black brains

African-American students do worse at school than whites or Asians. Some people think the problem is that the tests are biased. Peter Sacks, author of a 2000 book on the subject, called them “abusive”, “meaningless” and “what amounts to the academic lynching of children of colour”. Others think the tests say black 17-year-olds can read no better than white 13-year-olds because that, alas, is the case.

Test scores are excellent predictors of success in later life. Black men, on average, earn less than white men, a disparity often blamed on discrimination in the job market. But a study by George Farkas and Keven Vicknair found that if one compares black men with whites with similar scores on standardised tests, the blacks earned slightly more. Another study found that the gap was merely reduced by three-quarters. Either way, it would appear that literacy and numeracy are rather important if you want to get on in life. Why this should shock anyone is baffling.

The good news is that black students are doing better. According to the National Assessment of Educational Progress, the gap in reading scores between black and white nine-year-olds shrank from 44 points in 1971 to 26 points in 2004. About half of the catch-up has occurred since 1999, suggesting that reforms to promote more rigorous teaching and testing may have borne fruit. But the gap is still huge.

In their book “No Excuses: Closing the Racial Gap in Learning”, Abigail and Stephan Thernstrom call black academic underachievement a “national emergency”. They blame it on bad schools and bad study habits. The schools many blacks attend are bad, they argue, not because they are underfunded or overcrowded but because they are unruly, the lessons undemanding and the teachers sub-standard yet unsackable.

Yet this is not the whole problem. Equally poor Asians in the same bad schools perform significantly better than their black classmates. This may be because their parents make them do, by one estimate, twice as much homework.

Or it may be because black children who get good grades are accused by their peers of “acting white” and are ostracised. Roland Fryer of Harvard University found that in mixed-race public schools, blacks who did well academically had fewer friends than those who did poorly. This was not true for blacks who attended private schools, however, or for those in schools that were virtually all-black.

One way to correct for low black academic standards is to lower the bar. Most universities admit black applicants with lower scores than their white or Asian rivals. This increases the number of blacks who enter college. But it also reduces their incentive to strive for excellence. And it sets them up for failure once they get there, because they often lack the skills to cope.

A study by Richard Sander, published in the *Stanford Law Review* last year, found that black law students were twice as likely to drop out as whites. To wails of protest from the academic establishment, Mr Sander predicted that if affirmative action were abolished, the total number of blacks who graduated would go up.

Opponents of affirmative action argue that, rather than lowering the bar, America should help black students perform better. One way would be to offer parents vouchers so they can move their children out of bad schools and into better ones. Inner-city parents like this idea, but it has hardly been tried because it is furiously opposed by public-school teachers' unions and by their allies in the Democratic Party.

Which leads to a last point. Back when the Republicans were best-known for having ended slavery and the Democrats were fighting to uphold segregation, black Americans who could vote mostly cast their ballots for the party of Lincoln. That changed during the civil-rights era, when the Republicans cynically wooed southern racists unhappy with black emancipation—the so-called “southern strategy”.

Today, African-Americans are so wedded to the Democrats that Julian Bond, the chairman of the National Association for the Advancement of Colored People (NAACP), can call his organisation “non-partisan” while likening conservative blacks to “ventriloquists' dummies”. A huge majority of black

voters support the Democrats. Many doubtless agree with Mr Bond's view that to do otherwise is to sell out. But some don't. Whereas only 9% of black voters backed President George Bush in 2000, 11% did so last year. Proportionately, this was quite a shift, even if the numbers are still tiny.

The Republicans sense an opening. At the same conference where Mr Bond was spreading his "non-partisan" message, Ken Mehlman, the chairman of the Republican National Committee, apologised for the southern strategy: "I am here today as the Republican chairman to tell you we were wrong." He then courted black votes, partly on practical issues, such as school choice, but also by suggesting that if blacks continue to support the Democrats so monolithically, they risked being taken for granted. It is usually better to have two parties competing for your attention.

For 40 years now, black voices have been heard loud and clear. What they say is up to them. Last year, speaking at the Democratic convention, Barack Obama, the son of a Kenyan goat-herd who is now a senator for Illinois, listed some of the qualities that make America "a magical place". One was "that we can participate in the political process without fear of retribution, and that our votes will be counted—at least, most of the time."

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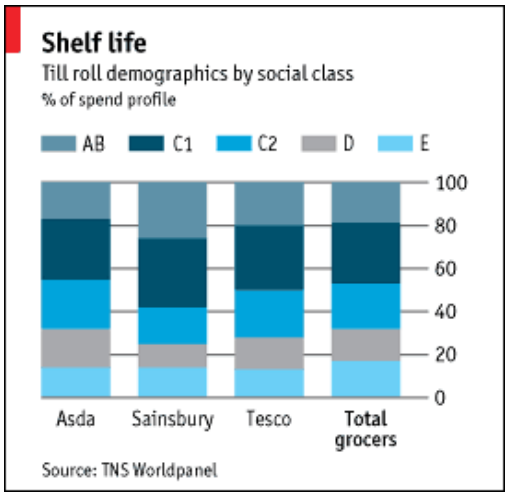
Tesco

This sceptered aisle

Aug 4th 2005
From The Economist print edition

Tesco is successful chiefly because it understands Britain. But it is also changing the place



Get article background

IF AN anthropologist wanted to know what Britain was like, he would do well to take his notebook to Tesco. That's partly because it sells a third of Britain's groceries. But it is also because Tesco's customers are made up of the wealthy, middling and poor in just the same proportions as shoppers in the country as a whole (see chart). Tesco has become big by being like Britain.

At the beginning of the 1990s Tesco occupied a smaller, relatively downmarket slot. In a country where people still saw class in where others shopped, nice upper-middle-class mothers went to J. Sainsbury or Waitrose. Since then, Tesco has prospered by conquering the centre ground. The store that was once best known for being cheap now stocks expensive beef fillets in elaborately concocted sauces.

It has been a fabulously successful strategy. Tesco is the biggest retailer in Britain, where it employs more than 250,000. The third-largest retailer in the world, it made an underlying pre-tax profit of more than £2 billion ($3.5 billion) last year on sales of £37 billion. It is still growing at home, but is also expanding abroad, with investments in Poland, Thailand, South Korea, Ireland and Hungary. So what changed?

Part of the answer is Britain itself. As Britons became more middle-class, Tesco followed them upmarket. And it has made better use than its rivals of technology to find out exactly what they like.

Tesco is always hungry for new data: it recently called University College London's geography department to discuss new ways to slice up statistics. But most of its information comes from the Tesco Clubcard, a customer-loyalty scheme that allows Tesco to record what people are buying. Their 12m Clubcards are used regularly in Britain, many of them in the form of key fobs with a bar code on the back. Shoppers each buying 20 items a week would generate more than 12 billion pieces of data each year. Tesco can then explore links between purchases of different items—Turkey Twizzlers and claret, say—and market them in the store accordingly. “We believe we have one of the largest databases anywhere in the world,” says Martin Hayward of dunnhumby, the company that handles it for Tesco.

This knowledge allows Tesco to do two things. First, it can lavish attention on customers by giving them

discounts on things that they buy routinely. Each cardholder gets a letter at the end of each quarter containing vouchers worth 1% of what they have spent. But they also get coupons that entitle them to discounts on products that Tesco's database, working much like the software that powers Amazon.com, suggests they might like. Last quarter, the store sent out 6m versions of this letter, each offering slightly different discounts.

Second, Tesco can adjust its shelves to suit the profile of the local area, or even the time of day. Tesco in Brixton, an area of south London settled by immigrants from the Caribbean, sells plantains, a kind of savoury banana that can also be found for sale on market stalls outside. Tesco stores in central London do not, but are instead designed around selling sandwiches to office workers at lunchtime and then ready-meals to them in the evening. The aim is to combine the local knowledge of the village shop with a multinational's economies of scale in buying and logistics.

But, thanks to its size, Tesco is also changing the country that Sir Terry Leahy, its chief executive, says it mirrors. Some of these changes are small. The dust jacket of a book that was to be sold in-store was recently altered because a Tesco buyer did not like it. Others are more fundamental. Before the Clubcard came along, the largest panels that suppliers could use consisted of around 20,000 people. But suppliers can now pay for access to the database and many just rely on Tesco.

This dependence means there is an information loop, in which a product is developed and perfected according to the tics of the Tesco customers—who will determine its success. Now Tesco has expanded into selling everything from clothes to financial services, this feedback affects more than just food.

So Tesco is changing tastes and habits. Convenience stores of the sort that Tesco has been building rapidly are leading to smaller, more frequent shopping trips and increased sales of instantly gratifying things such as ready meals. This is often attributed to the increasing numbers of professionals with little time and plenty of money. But the shift is too marked to be explained by demographics alone—if only because professionals are relatively light users of convenience stores. The big cause, it seems, is on the supply side.

Tesco's power is causing resentment. Most openings of big new stores are greeted by fears for local shops and a campaign to keep Tesco out. Tesco suppliers refuse to talk about their relations with a Goliath that is not frightened of using its bargaining power. There is even a pressure group, Tescopoly, dedicated to breaking the company up. Responding to popular pressure, the Office of Fair Trading (OFT), a government agency, has asked if Tesco is too big, and looked at its relations with suppliers. This week it concluded again that the grocery market is working.

Tesco tries to see off criticism by arguing that it gives customers what they want and keeps staff happy. But partly to avoid further scrutiny and partly because it is hard to get planning permission for big stores, Tesco has lately been opening smaller convenience stores, which the OFT considers separate from the supermarket business. Convenience is now the fastest-growing bit of the grocery business.

Stores with dominant market positions in other European countries have had to shout loud about their social benefits, says Jonathan Reynolds of Oxford University's Said Business School. Migros, a Swiss supermarket chain with an 18.5% share of all retail in that country, sponsors ski schools for children and funds a think-tank.

Tesco already does some philanthropy, thanks to the planning system in Britain (permission to dig foundations for a store typically depends on building low-cost housing or something for a local school). If grumbling about the company continues, it might have to do more. Just being well run, profitable and an image of Britain may not be enough.

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Islamist terrorism

All over bar the shouting?

Aug 4th 2005
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A breakthrough in the investigation, and a lot of recriminations

BY THE afternoon of July 29th, it seemed as though London's police had got what they wanted. Three men, wanted for an attempt to bomb the public transport system eight days earlier, were arrested in west London with no serious injury or loss of life. Italian officers picked up Hussain Osman, another suspected bomber, in Rome after tracing his mobile phone. But any hope that London's police would soon be able to close their terrorism files and let the courts do the rest was quickly scotched.

Police continued to flood London's centre and its transport hubs with officers, many of them armed. As Tarique Ghaffur, of the Metropolitan Police, admitted, work on some murders that took place before July 7th has "slowed to a trickle." That, more than any tight-lipped statement from anti-terrorism officers, suggests more attacks are expected.

A second hitch is that Mr Osman remains in Italy, and may prove difficult to extract. Mr Osman, also known as Hamdi Issac, is subject to a European arrest warrant issued by Britain. Investigators hoped he could be extradited under new fast-track rules. But Italian magistrates want to know whether he was plotting in their country—possibly with members of his family, some of who have also been arrested. Their inquiries, and appeals against extradition, are likely to slow things down.

To the fury of Britain's police, Italy's leaky criminal justice system also provided the first hints about the motives of the men suspected of trying to bomb London on July 21st. Mr Osman had reportedly been surprised by the devastating bombings of July 7th, and had merely intended to make a political gesture against the Iraq war. London's police scorned the notion that the second bombing had been anything other than attempted mass murder, but were silent over the idea that the two sets of bombers were unconnected.

No such hesitancy is evident in the British press. Fire-breathing newspapers such as the *Sun* and the *Daily Mail* responded to the horrors of July 7th with cautious and sometimes subtle articles about British Muslims. They reverted to form after it was revealed that some of the men suspected of the July 21st bombing were not just immigrants but also recipients of welfare—two familiar bugbears. This week, another culprit was identified: the wrong-headed tolerance and special pleading known to its detractors as multiculturalism.

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A Muslim festival

Green gumboots, green flags

Aug 4th 2005 | LINCOLN
From The Economist print edition

Middle England takes middle-class Islam to its heart

THE agricultural show has changed a bit over the years, an 88-year-old man mused recently to the local paper: in his youth, the annual fair was devoted to Lincoln Red cows, horses, grain and seed—whereas these days the list of attractions has broadened; it also includes ferrets and pig-racing.

Startling developments, to be sure. But they pale beside last week's event, when Lincoln played host to the festival of Living Islam for the second time. The show-ground, a few miles outside one of England's great cathedral cities, is accustomed to ladies in scarves, but they are not usually of the Islamic variety. Young Muslim families—camping out in neat rows of tents on the damp grass—gathered from every corner of Britain for an exuberant weekend of recreation, entertainment and worship.

There were bouncy castles and stand-up comics, plus music from Dawud Wharnsby Ali—a Scots-Canadian convert to Islam—backed by drummers of both sexes. Along with the travel companies promoting package tours to Mecca, the stall-holders included some well-known British banks, promoting Islamic finance, and the Lincolnshire police, handing out leaflets about the merits of an equal-opportunity employer with tolerant views on headgear.

But for those in search of stronger medicine, the charismatic Swiss-based theologian and advocate of “European Islam”, Tariq Ramadan, took over the Big Top on Saturday morning to give an impassioned oration on a theme that was close to his listeners' hearts. There should be no contradiction, he said, between being a devout Muslim and a loyal British citizen. “In philosophy and spirit you are a Muslim, but politically and socially, you are British,” he declared, to ripples of applause.

There were equally loud cheers when he condemned the terrorists who had recently struck Britain; when he suggested that Muslims should attend mainstream schools; and when he urged that Muslim instruction should be conducted by imams born in Britain, not Pakistan.

As for the city itself, mayor, police and clergy seemed to take the event in their generous, openhearted stride. “I went along in my clerical dog-collar and was very warmly welcomed,” says Patrick Morrow, a local curate. “It's nice to have Lincoln put on the map.”

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Northern Ireland

RIR RIP

Aug 4th 2005 | BELFAST
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Unionists are furious at cuts in the Royal Irish Regiment

TIRADES bring results, the Reverend Ian Paisley likes to claim. These past few days the 79-year-old leader of Northern Ireland's Protestant unionists has threatened to block political progress, demanded that Sinn Fein be excluded from government and cast blame on David Trimble, the man he ousted as leader of unionism. But, so far, neither he nor his party has much to show for it.

Unionist anger follows the British government's hasty welcome to last month's IRA declaration that their war is over. London is speedily dismantling army installations and announcing the disbandment, security permitting, of 3,000 local, mainly Protestant, soldiers within two years. All this is clearly to a timetable to be matched by the IRA. Furious unionists think this confers legitimacy on the IRA.

On the appearances, they are right. The IRA's promise to put its weapons out of action will never have the visual impact of British demilitarisation. The IRA pledge to “dump arms” means the inconspicuous collection of many small armouries. When it earlier promised to have weaponry “put beyond use”, Mr Paisley demanded photographs and “humiliation”. (Even the British and Irish governments wanted photographs.) Now the agreement is merely that weapons and explosives will be disabled before international witnesses and clergy. Unionists seethe at the veil the IRA has been able to draw over decommissioning. This was not how they wanted the Troubles to end.

But their shock at the British demilitarisation is part bogus, part denial. Many army barracks are already closed. The Royal Irish Regiment (RIR) has long been on notice that some battalions would go. Numbers have been dwindling ever since the IRA reinstated its ceasefire eight years ago. Once IRA violence receded, battalions unsuited to service in, say, Iraq could no longer expect to escape the cuts facing other bits of the British army.

Protestant families in the mainly Catholic border country saw their men's service in the RIR as frontier duty and repeated and brutal IRA murders of its troops as genocide. But the end of republican violence was always going to mean standing down the RIR if only because, as with much in Northern Ireland, there was another side to the story. Weapons went missing or were stolen over the years, as did documentation on IRA suspects. Suspicion of collusion with loyalists—confirmed by official reports—sustained IRA credibility as the defender of Catholics.

All this leaves Mr Paisley struggling to express his outrage without ruling himself out of one day sharing power with Sinn Fein, the IRA's political wing. Paisley rhetoric is often contradicted by his next action. The British government is hoping that if the IRA honours its promises, wrath will give way to pragmatism.

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Ireland

Border? What border?

Aug 4th 2005
From The Economist print edition

Co-operation between North and South can be found in some surprising places

POLICE and ambulance services are working together; waterways are being maintained jointly; tourism boards are running shared campaigns. Since the Good Friday agreement in 1998, a host of cross-border initiatives has sprung up, with the aim of promoting harmony between the two countries that share the island of Ireland.

What is less well known is that many everyday activities—religious, cultural, sporting—have always been run as if the island had never been partitioned. The Catholic and all the main Protestant churches are organised on an all-Ireland basis; so are the bodies that run the traditional Irish music and dance festivals. And most sports (apart from soccer) are run along all-Ireland lines. The Gaelic Athletic Association, founded in 1884 to promote traditional Irish sports such as hurling and Gaelic football, and to resist the pernicious influence of “foreign” (for which read “English”) games such as soccer, organises its competitions according to province, with all-Ireland finals.

But the picture is not one of uniform brotherly love. Most of the long-standing cross-border activities involve Catholics on both sides of the border engaging in traditional Catholic pursuits. Likewise, the new cross-border initiatives are generally seen by nationalists as inherently a good thing, with each a baby step on the path to a United Ireland. Many unionists, however, would prefer to keep themselves to themselves, suspicious that they are being led unwilling down that path.

So it is encouraging that the most recent cross-border success concerns that most English of imports—cricket. The Irish cricket team consists of almost equal numbers of Protestants and Catholics, Northerners and Southerners. Last month Ireland hosted the International Cricket Council Trophy tournament, with games played in both Dublin and Belfast. They came runner-up behind Scotland, qualifying for the World Cup in 2007.

Governments come and go, and so do their initiatives. If the two communities sharing the island are ever to come to an accommodation, joint voluntary activities will have a part to play. It will be a sure sign of progress when Protestants feel secure enough to let their children take up hurling or Gaelic football, or audition for the next “Riverdance”.

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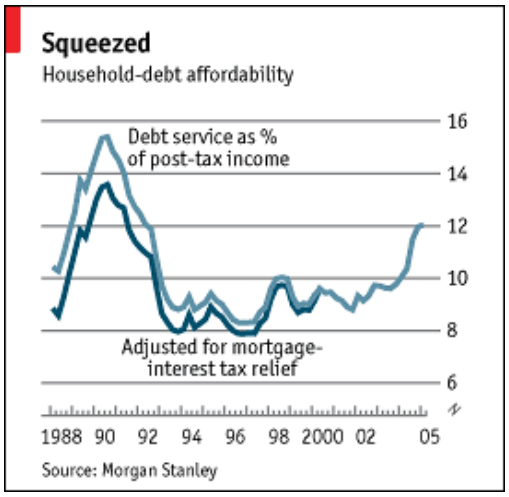
Interest rates

Down they come

Aug 4th 2005
From The Economist print edition

But how much further will they drop?



AFTER holding the base interest rate at 4.75% for a year, the Bank of England brought it down to 4.5% on August 4th. The decision by the Bank's nine-strong rate-setting committee had been widely expected since the minutes of its previous meeting revealed that four members had voted for a cut in early July.

Since then new figures have shown that the economic slowdown which started in the second half of last year has persisted. GDP grew by only 1.7% in the year to the second quarter, the slowest for 12 years. Manufacturing was in recession in the first half of 2005.

On a brighter note, retail sales were unexpectedly buoyant in June. However, this may prove a brief respite for the beleaguered high street. Retailers suffered bleak trading conditions in July, according to a survey published this week by the Confederation of British Industry.

Against this unpromising background the City would have been taken aback if the Bank had kept rates on hold again. Yet from a longer perspective the decision remains a surprise. Few thought that rates would peak so low when the Bank first started raising them from 3.5% in November 2003.

In large measure, the explanation lies in household debt, which has scaled new peaks. It now represents 150% of household disposable income, up from 110% in 2000. This means that even at lowish interest rates, debt servicing—interest plus regular repayment of mortgage principal—is a heavy burden. According to Morgan Stanley, an investment bank, it stands at 12% of disposable income, the highest since early 1992 when the base rate was 10.5%. Taking into account the tax relief then offered to mortgage borrowers, today's debt servicing is worryingly close to its previous peak when the economy was sliding into recession (see chart).

The high level of consumer debt is one reason to doubt that there will be a string of further rate cuts. Just as relatively small increases have a big impact on the way up, so too will they on the way down. According to David Miles, an economist at Morgan Stanley, large reductions in rates could stimulate a further borrowing boom, which would add to the pressure on household budgets when rates have to rise again in the future.

The economy will in any case be boosted by the sharp fall in the exchange rate that has occurred over

the past three months. The pound's trade-weighted value against a basket of currencies fell by 4% between the end of April and the end of July. According to Kevin Daly, an economist at Goldman Sachs, this stimulus to Britain's trade should add 0.75% to GDP growth in around a year's time.

Exporters may also be helped by a pick-up in the euro area. Not before time, there are some tentative signs of a recovery in the sickly single-currency economy, which buys half of Britain's exports. All in all, Mr Daly judges that the economy is resilient enough to require only one further cut in interest rates, probably in November. He is forecasting a return to rate hikes in the second half of next year after a "short, shallow cutting cycle".

By contrast, John Butler, an economist at HSBC, thinks that the Bank will have to do more to stave off further weakness in the economy. He is gloomy about the outlook for the global economy and sceptical that the euro area will stage much of a recovery. With business investment likely to remain weak and consumer spending slack because of the housing-market downturn, Mr Butler expects that rates will drop to 3.5% by the end of next year.

In its quarterly *Inflation Report*, due on August 10th, the Bank will set out its view of the economic outlook, revising its forecasts for GDP growth and consumer-price inflation. As they seek clues to the path of interest rates, the financial markets will be even more eagle-eyed than usual.

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Green energy

Greenery begins at home

Aug 4th 2005
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Renewable energy generates power, but not profits

POWER plants are big, heavily engineered and expensive, and that applies to renewable energy as well as fossil-fuel generation. Bragging rights over who owns Britain's biggest wind farm change every few months, and irritated locals often complain about the huge turbines. Yet there are signs of growth at the other end of the renewables market, too, where small power plants that supply power to individual homes (or small groups of houses) are becoming more popular.

The most familiar are rooftop solar panels, which have been available for decades. These can either generate electricity or provide hot water. They are reliable (even on a cloudy day) and unobtrusive, and the market for them is growing fast, albeit from a low base: the government reckons the total amount of installed solar power has risen 24-fold in the past decade.

Others have gone for small wind turbines. Last week Camden Borough Council, in London, said it would build five small windmills on top of its office building to power its fleet of electric cars. Windmills are cheaper than solar panels, but less reliable: no power is generated on a calm day (although modern turbines can eke small amounts of current from quite gentle breezes), and the power output varies as the cube of wind speed. Even so, several firms already sell rooftop windmills, and bigger fish are becoming interested. British Gas, a power company, thinks tiny rooftop turbines could cut power bills by around a third, and later this year is planning to try them out in Scotland and the South-West . “We've had a huge amount of interest just from saying we're planning to run a trial,” it says.

There is just one hitch: most small-scale renewables do not make financial sense. The government reckons it could take up to 120 years for rooftop solar panels to pay for themselves through cheaper bills (the panel-makers deride this figure as “ludicrous”). Windmills do better, but they are still not a profitable investment: British Gas admits that it may be a decade before its first few customers break even.

The economics are a little better for micro-hydro. Old water mills, for example, can easily be converted to produce electricity, and, since most of the infrastructure already exists, doing so is cheap (at least compared with rooftop wind and solar power.) Ten mills in Somerset provide enough power for 150 homes, and there are similar schemes all over the country. But hydro-power requires a suitable river, and even if every mill in the country were re-opened, it would satisfy only a tiny fraction of Britain's energy needs.

Yet the state subsidises micro-renewables. Grants of up to £5,000 are available, as well as tax breaks for equipment. Last year it extended its subsidy scheme for big renewable generation to cover small-scale projects. Even so, most of the early adopters—especially in solar and wind—have been committed greens more interested in saving the planet than saving on their bills.

The government's subsidy scheme ends next year, and it is wondering what to replace it with. The industry is anxious, and insists that with a bit more help it could bring prices down to the point where small windmills and solar panels are financially viable. But some observers think fashion could also provide a boost. British Gas says some of its customers see micro-windmills as a lifestyle item that will let them flaunt their green credentials. And micro-renewables have just received a celebrity endorsement: last month the Royal Family announced plans for a £1m, 200 kilowatt hydroelectricity scheme on the river Thames, which will help to keep the chandeliers on in Windsor Castle.

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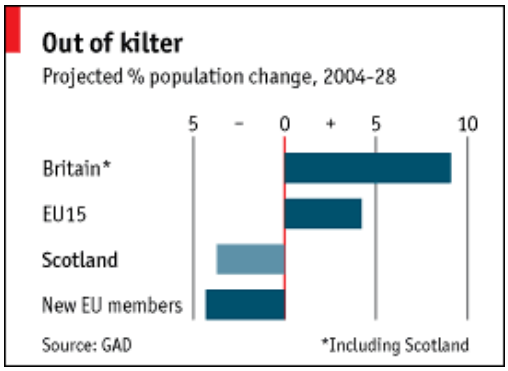
Scotland

Welcome Mac

Aug 4th 2005
From The Economist print edition

Scotland wants immigrants



IMMIGRATION is a fraught political subject. Government ministers often pretend to do their best to prevent it. Odd, then, that in Scotland the reverse is true. In fact Scottish politicians want as many immigrants as they can get.

This is even odder given that a report last week showed the country's population increasing over the past year, not for the first time. But long-term predictions are less rosy (see chart). Scots have fewer children, later in life, than other Britons. They are ageing more quickly too. And on current trend the population will fall below the symbolic 5m mark in the next few decades.

In response, the Scottish Executive has launched an initiative called “Fresh Talent”. The scheme involves allowing graduating students from outside the EU to stay in Scotland for two years. There is also a call-centre and website, and friendly posters in Scottish airports.

Will it make a difference? Kim Swales, an economist at Strathclyde University, thinks it might, although he says concern over falling population is often “more psychological than economic”. A more promising avenue comes from Britain's proposed “points-based” immigration system. Tom McCabe, the minister in charge of migration, says he “would be disappointed” if British authorities did not give more points to people who want to come to Scotland.

Beyond that, Scotland faces a chicken-and-egg problem. Which comes first: the people or the jobs? Scottish Conservatives think that people will come only if the economy is growing strongly. A recent report from consultants Ernst & Young disagreed, suggesting that migrants, attracted by low house prices, will increase Scottish growth.

But attracting migrants can also cause problems. Glasgow City Council tried to bring asylum seekers to the city, both to get money from the Home Office and to fill up spare council housing. The plan was a fiasco, and resulted in street demonstrations when a Kurdish asylum seeker was murdered in 2001.

Such events do little to overturn Scotland's image as an unwelcoming, dour place. Samuel Johnson said: “The noblest prospect which a Scotchman ever sees is the high-road that leads him to England.” Proving him wrong will be the best test of Scotland's future prosperity.

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Hotels

Less Fawlty

Aug 4th 2005
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London's mediocre budget hotels face a bit of competition

"WHAT I'm suggesting is that this place is the crummiest, shoddiest, worst-run hotel in the whole of Western Europe," moaned a guest in the BBC's Fawlty Towers comedy. "No, no. I won't have that," replied another. "There's a place in Eastbourne."

They should have stayed in London. Its budget-hotels are dominated by mediocre outfits clustered around grubby railway stations. The *Which? Guide to Good Hotels,* which has a notably slim section on the capital, says expensive, bad establishments survive because of high demand and a lack of competition. "You wouldn't put your worst enemy in some of these places," says its editor, Kim Winter.

Good cheap hotels have boomed in Britain of late, but have found it difficult to thrive in London. New hotels in big cities are constrained by sky-high property prices, a lack of suitable sites, and competition from developers. High property taxes don't help either.

Nevertheless, budget chains, having found sites, have gradually moved into the city. And they were joined this week by Stelios Haji-Ioannou, the ubiquitous entrepreneur behind easyJet, the budget airline, who opened his first "no frills" easyHotel, in west London with prices for some "rooms" as low as £20. Mr Haji-Ioannou thinks that there is an untapped market for clean and cheap hotels in cities.

EasyHotel has found ways of getting round the problems facing cheap city hotels. Its bedrooms range from "small" to "tiny", meaning it can fit 60% more of them into a building, which helps the sums add up. This allows it to take locations that other hotels can't. It also runs the hotel on only four staff. "And of course," says Mr Haji-Ioannou, "we will use our famous yield management techniques" to vary price according to demand.

Will easyHotel work? With its cramped, bright-orange rooms, easyHotel is no place for a claustrophobic prone to migraine. The idea might prove hard to franchise. And few of Mr Haji-Ioannou's ventures have repeated the success of his airline. As at easyJet, not many customers will benefit from the very cheapest prices. Even so, the average price is only £35 and Steve Lacey, of Davis Langdon, a consultancy, thinks the scheme will work. More importantly, he expects that this sort of budget hotel will "gradually put the bad ones out of business."

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Vacancy

Aug 4th 2005
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Polish politics

Too content by half

Aug 4th 2005 | WARSAW
From The Economist print edition

Despite the woes of their ethnic kin in Belarus, the prosperous Poles risk becoming too jaded—and apolitical—for their own good

Get article background

POLAND'S eastern border is not only the frontier of the European Union. It also marks a divide between two political worlds. On one side, there is Belarus, whose rulers yearn for the Soviet era. On the other, there are the EU's new members, who saw the end of communism as a longed-for liberation of their human, political and economic potential, a liberation that is now in progress.

“All Poles are anti-Communist,” says a Polish politician, Roman Giertych, an outspoken critic of the Belarussian regime. “And just 20km from the border in the town of Grodno, you have a statue of Lenin, in a street named after Karl Marx.” Mr Giertych's views have been sharpened by recent events: Poland has just recalled its ambassador from Belarus, in protest at the authorities' repressive treatment of an ethnic Polish minority that numbers 400,000 or more. There have been pickets of the Belarussian embassy in Warsaw, and protest rallies elsewhere. Belarus has responded, with state-controlled television claiming that Polish politicians are American puppets and that “America wants to capture all of Russia, and Belarus is a gateway to Russia.”

For Polish citizens, the sight of their kin chafing under neo-Soviet rule recalls the cold war's bracing certainties. But in domestic politics, nobody is rushing back to the barricades. Even as many Poles reap the benefit of liberal economics, they find liberal democracy a yawn. Attitudes to the parliamentary elections due in September, and the presidential one the following month, are cynical and apathetic.

Radio RMF, one of the two big independent stations, has decided not to cover the elections at all. “Our listeners don't like politicians so we don't want to give them free advertising,” says Marek Dworak, a director. That's a startling retreat: RMF (full name: “Radio Music and Facts”) was the first independent station in the former Soviet empire, set up explicitly to promote free information and democracy.

It is easy to see why voters are fed up. Polish politicians are a mostly mediocre lot, keener on squabbling with each other than talking (let alone listening) to the voters. Campaigning in the mainstream of politics is lacklustre and patronising; in more radical backwaters, it is weird, verging on the mad. Even in parties that try to call themselves clean there is a whiff of corruption; in others there is an outright stench. The country's only world-class politician is the outgoing president, Aleksander Kwasniewski. He earned international recognition for brokering a peaceful transfer of power in neighbouring Ukraine during last year's revolution. No one else, least of all from the right-of-centre

parties likely to win the elections in September, shows much sign of matching him.

Prosperity makes apathy an affordable self-indulgence. The country's middle class is thriving thanks to EU membership. Lynka, an American-owned firm in Cracow that makes promotional clothing, used to have export sales of only a few hundred thousand dollars, less than 5% of turnover. That was the effect of high tariffs, and—worse—the capricious and inefficient reign of the Polish customs office, which could take a fortnight to process a shipment. Joining the EU's single market has sent Lynka's exports soaring, up tenfold this year compared to 2002, to around €3m ($3.7m) or 15% of turnover. It has taken on 20 extra staff, tripling the size of its export department.

Yet even in the realm of economics, there is plenty for the public—and politicians—to worry about. Poland's growth, although likely to be nearly 4% this year, is tailing off; unemployment, at 17.9%, is the highest in the EU. Among the under-25s it is a startling 39.5%. That, says Pawel Dobrowolski, a reform-minded economist, is because mismanagement has privileged insiders over outsiders and stifled competition, making the economy less liberal and less open than it was when communism collapsed. “Fifteen years ago, a bright multilingual graduate could expect to be a director of a company,” he says. “These days a bright multilingual graduate is happy to get a job in a salad bar.”

Poland's other big problem is the expensive and inefficient public sector, which gobbles 45% of GDP. Even the high taxes won't raise enough to feed that, so the government plans to borrow a further 35 billion zlotys ($10.5 billion) this year, to plug a deficit of nearly 6% of GDP. That sucks resources from the private sector; worse, the state doesn't work well, destroying wealth and jobs with intrusive, time-consuming bureaucracy.

This is not a uniquely Polish problem—every post-communist country is wrestling with the difficulties of public-sector reform. But Poland seems particularly bad at controlling spending and standing up to special-interest groups. Last month, miners demanding the right to retire after 25 years at work besieged the parliament. That was an emotional echo of the Solidarity trade-union protests of 1980, which destroyed the credibility of a system where bureaucrats ruled in the name of the proletariat. But this time the case was much weaker: Poland already has too many pensioners on generous benefits and the lowest employment rate in the EU, at a mere 52% of the working-age population. The protest resulted in a dozen injuries and a score of arrests—and the government promptly caved in, which will cost the wobbly national budget up to 6 billion zlotys a year by 2015.

That reflects a lack of focus. Other countries, such as neighbouring Slovakia, have a cross-party consensus about the need to reform, involving simpler taxes, a better education system and eagerness to learn from abroad. Poland, by contrast, seems introverted and complacent, when its post-communist rivals are managing considerably faster growth rates. “The difference between 7% and 4% growth is the difference between catching up western Europe's standard of living in my lifetime, or my children's,” says one thoughtful Polish businessman. “We are the sleeping tiger of Europe, but it is time we woke up.”

For all that, Poland's problems are those of the victors, not the vanquished, Voter apathy, public-sector inefficiency and greedy protectionist lobbies are headaches shared by developed democracies the world over. Compared with ten years ago, let alone 15 or 20, Poland has done hugely well: government is better organised and more responsive, infrastructure (particularly telephones) far better. One simple

sign of this: most Belarussians would love to have Poland's difficulties—and the reverse is far from true.

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Turkish historians

When history hurts

Aug 4th 2005 | ANKARA
From The Economist print edition

Times are tough for outspoken scholars

IF TURKEY is ever to join the European Union, it will need to acknowledge—and allow free discussion of—the mass slaughter of the Ottoman empire's Armenian subjects both during and after the first world war. That, at least, is the opinion of some EU members—especially France, where many Armenians live, and where objections to Turkish entry run high.

In theory, Turkey's rendezvous with the Union—entry talks are due to start in October—should be good news for the Turkish scholars who have risked prosecution by challenging the official line, which holds that the mass deportation of Armenians in 1915 did not amount to a conspiracy to kill them. And earlier this year, there were some good signs.

After decades of denying that the killings—which Armenians round the world regard as genocide—ever took place, Turkey in April called on international scholars to determine once and for all what really happened, saying they were free to examine the Ottoman archives. This invitation from Recep Tayyip Erdogan, the prime minister, won strong praise from EU governments. But the few intrepid souls who took him at his word have had nothing but trouble ever since.

In May, a group of Turkish historians (many of whom challenge the official view that the main cause of death among deported Armenians was exposure and disease) suffered a sharp setback. They had to cancel a conference which was due to debate the Armenian tragedy after the justice minister, Cemil Cicek, accused them of “stabbing Turkey in the back”.

Another bad sign: Hrant Dink, the publisher of *Agos*, an Armenian weekly in Istanbul, is facing up to three years in jail for telling an audience in 2002 that he was “not Turkish” but “an Armenian of Turkey”. In a separate case, also filed this year, Mr Dink is facing up to six years for urging Armenians and Turks to stop hating one another. In both instances, Mr Dink was said to have “insulted the Turkish state”.

How do these prosecutions square with Mr Erdogan's stated wish to take the sting out of Turkish-Armenian relations by allowing some honest research? “Easily,” insists Mr Dink. “There are forces in this country who are working night and day to stop Turkey from joining the EU and part of that is silencing people like me.”

But these days, the problems of liberal Turkish scholars—and advocates of Turkish-Armenian reconciliation—are not all caused by their own country. Take the case of Yektan Turkyilmaz, an internationally acclaimed Turkish scholar who was arrested in Armenia on June 17th on charges of seeking to smuggle antique books out of the country. Fluent in Armenian, Mr Turkyilmaz is among the few Turks who say the Ottoman policy in 1915 did amount to deliberate killing. The first Turkish academic to be granted access to Armenia's national archives, Mr Turkyilmaz is being held in a maximum security prison in Yerevan. He will face trial next month for violating Article 215 of the Armenian Criminal Code, which equates the smuggling of antiquities with trafficking in weapons of mass destruction. He could incur a jail sentence of up to eight years.

Mr Turkyilmaz insists he had no idea about the law, and that the dealers who sold him some 100 volumes never said he would need permission to take them out. In an open letter to Armenia's president, Robert Kocharian, some 200 academics, campaigning for the historian's freedom, said the arrest would “raise serious doubts as to whether Armenia encourages independent scholarly research on its history.”

Whatever view you take of the Armenian tragedy, it can get you into trouble—in unexpected places. Dogu Perincek, an eccentric Turkish leftist, was briefly detained in Switzerland on July 23rd. The Swiss authorities say he breached article 261 of their penal code, which makes the denial or justification of

genocide a punishable offence. Mr Perincek had told a conference that to speak of Armenian genocide was an “imperialist lie”. Oddly enough, the Turkish authorities seem far more indignant about his minor travails than they are about Mr Turkyilmaz.

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The Vatican and Israel

An unholy war of words

Aug 4th 2005 | ROME
From The Economist print edition

Of friars, taxes and suicide bombs

Get article background

WHAT has gone wrong between the Vatican and Israel? The late pope, John Paul II, was credited with transforming that sensitive relationship from virtual non-existence into a sound mutual understanding. Yet four months after his death, Israel's ties with the Holy See have been reduced to tatters.

Trouble began on July 25th when the Israeli government summoned the Vatican's envoy to complain about the terms of Pope Benedict XVI's condemnation, the day before, of a string of terrorist attacks. Denouncing bombings in London, Turkey, Egypt and Iraq, the new pontiff failed to mention a suicide attack on the Israeli city of Netanya that had left five Israelis dead.

Israel's foreign-ministry spokesman accused the pope of a “deliberate” omission. His “deafening silence” risked being a “licence for acts of terrorism against Jews”. The Vatican's initial reaction was emollient. The pope's spokesman noted that Benedict had condemned all recent terrorist acts, so Netanya was covered by this. But three days later, claiming to be stung by an interview with an Israeli official in the *Jerusalem Post*, the spokesman issued a longer, tetchier statement. The Holy See could not “accept lessons and directives from any other authority”.

The Israeli official's contention was that the Vatican had for too long failed to condemn acts of terror in Israel in the same way as it deplored such acts elsewhere. Quite right, said the Vatican, which insisted there was a reason for this differentiation: attacks in Israel were often followed by retaliation that violated international law. This was much sharper language than usual—and it prompted a German commentator to suggest that this might be the first sign of a new, Teutonic tactlessness under a Bavarian pontiff.

In fact, despite the optimism created by John Paul's historic visit to the Holy Land in 2000, workaday relations between Israel and the Vatican have been quietly fraying for years. The root of the problem may lie in the cavalier way diplomatic relations were established in the early 1990s. (Prior to that, Israel and the Holy See had never exchanged ambassadors—in part because of the Vatican's insistence that Jerusalem and its sacred sites should be under an international regime.)

To get around what Israel saw as obstructionism by the Vatican's Secretariat of State, Israeli negotiators went directly, but secretly, to John Paul. The late pontiff—a “big picture” man—agreed that diplomacy should not be held up by questions of detail. But two main things had to be settled, sooner or later: the status of the Catholic clergy, friars and nuns who are the guardians of many holy sites, and the Vatican's wish for a formal deal on the tax-exempt status of the church. The first issue has been settled in principle, but the deal has yet to be ratified. The tax issue remains unresolved, and at the time the current row broke out the talks had stalled.

As for the Israelis, they have until now raised any objections to the Vatican's line through quiet diplomacy. But their new sharpness suggests two things: real ire over the omission of Netanya—and a feeling that with the withdrawal from the Gaza strip in prospect, it is now urgently necessary to get the Vatican to alter its policy of uneven reaction to terrorism.

“If the world only offers weak condemnations, the Palestinian extremists will turn to Palestinian Authority chairman Mahmoud Abbas and ask why he wants to confront them, when the world is not all that concerned about suicide bombings in Israeli cities. And it is within this framework that the Vatican's condemnations become so important,” a writer in the *Jerusalem Post* said recently.

On the Catholic side, one source said Rome was keen to avoid being drawn into an “Israeli agenda”

which sought to portray “heavy-handed responses to suicide bombings” as justified by the wider war on terror. When there is such wide disagreement on issues of principle, what hope is there of settling matters of detail, such as whether to tax friars?

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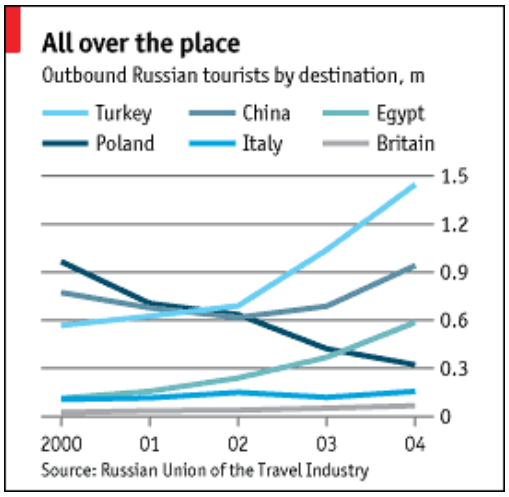
Russia's travellers

No place like home

Aug 4th 2005 | MOSCOW AND RIMINI
From The Economist print edition

Russians' familiarity with other places breeds no contempt for their homeland



"BECAUSE Rimini is Russian," says the woman at the car-hire desk at Rimini airport, when asked why she speaks Russian so well. A week later, the mainly female passengers of your correspondent's charter flight from Moscow are back, tanned, wearing even less, and lugging improbably sized holdalls stuffed with Italian handbags and apparel.

Before the Soviet Union collapsed, travel beyond its borders was a luxury reserved for a privileged governmental caste. Many Russians still recall the fear and exhilaration of their first foreign jaunts and the sick realisation these trips brought of just how ill-run and ill-fed their country really was. Fyodor Lukyanov, editor of *Russia in Global Affairs*, remembers his speechlessness at the abundance of a supermarket in a village outside Hanover.

In the early 1990s, such experiences contributed to an intense and prolonged bout of national self-flagellation. Fifteen years on, things have changed—in unpredictable ways.

Last year, more than 6.5m Russians holidayed abroad. For all the visibility of the oligarchs of west London, the most popular destinations are Turkey, China and Egypt (see chart). Some of those tourists are traders in disguise: checking in for a flight to Moscow from Istanbul, burly matrons with too many bags inveigle strangers into taking a few of their carpets for them. (China, on the other hand, is increasingly a genuine holiday destination, especially for far-easterners.) Smaller but growing numbers are discovering once unimaginably exotic places such as the Maldives. Russian wanderlust is robust: Irina Tyurina, of the Russian Union of the Travel Industry, says that Russians are last to leave, and first back, when tourist areas are hit by disasters.

Lena, now a lawyer, says that when she first travelled outside Russia, to Prague, she worried about the reputation of Russians abroad, and tried to speak English as a disguise. Some of that reluctance to be identified as Russian, and to associate with other Russians abroad, persists. But back at home, Russia-bashing is out of fashion.

Visas for the European countries bound by the Schengen accord can be hard to get, especially for the young and single (see article); new visa requirements for Poland have deterred many Russian visitors. American visas are still more elusive. But even among those who go west on business, attitudes to

Russia and the way it is governed often seem impervious to critical comparison. Encountering other countries' police, for example, does not seem to make Russians crosser about the corrupt antics of their own. Returning home, says Katya, a well-travelled Muscovite, “I always think that Moscow is very beautiful.” We don't need to travel, say several Russians, to understand our problems.

Is there a world elsewhere?

Of course, despite the post-Soviet tourist boom, the great majority of Russians have never left the country. It was the same in tsarist times, when the aristocracy conversed in French, but most people never strayed beyond their village. Some modern Russians prefer domestic vacations: “We still feel ourselves to be a continent,” explains one Russian journalist. Nostalgia (and price) prompt some to patronise former Soviet resorts such as Abkhazia, a breakaway enclave of Georgia living off Russian tourists. But most Russians are simply too poor for holidays to mean more than a rickety *dacha*, picking mushrooms and swimming in a murky river.

Many of these Russians have little more reliable information about the rest of the world than they had in the 1980s; in that sense, says Mr Lukyanov, they are “still living in the Soviet Union”. Some just don't believe things are different or better elsewhere. Interrupted while extracting a bribe from some hapless Americans last month, three Moscow policemen were astonished to learn that, in America, people don't have to carry their passports with them at all times. (They guffawed when asked to consider the effect of their extortion on international relations.)

Nor do prolonged sojourns in foreign lands make a difference. At a ramshackle Moscow-region sanatorium, an employee happily recalls the seven years he spent in the Czech Republic, where he married and earned a good salary. But asked if he considered settling there, he responds indignantly: “Why should I? I'm a Russian!”

Increasingly, Russians seem happy to transact with the world, whether in person, by buying foreign products, or both at once. But this is no longer dimming their instinctive nationalism.

That model—transact, but remain aloof—mirrors the prickly foreign policy that has emerged under President Vladimir Putin , even as economic links with the West have strengthened. This week, his government decided in effect to end the journalistic accreditation of ABC news, after it broadcast an interview with Shamil Basayev, self-proclaimed Chechen terrorist. More worrying was the recent insistence by the head of the FSB, successor to the KGB, that some foreign NGOs in Russia are spies, meddlers and troublemakers.

Alexei Levinson, a sociologist, sees this nationalism as a defensive reaction to the humiliation of the Soviet collapse, though it also has deeper wellsprings. It is too profound a feeling, Mr Levinson argues, to be remedied by the mere opening of borders.

Russians, of course, are not the only people who love their country. But Russia's combination of grotesque social and political problems with a revived aversion to external influence (or even ideas) is peculiar, and potentially tragic.

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Travel to Russia

Tear down that wall

Aug 4th 2005
From The Economist print edition

Ukraine is now easier to visit than Russia

THE art collections, the ballet, the romance of a cruise down the Volga. All these and more are good reasons to visit Russia. Yet getting there is no easy thing for residents of western countries. To obtain a visa, they must be officially invited to Russia by an individual or organisation; the invitation must then be taken to a Russian embassy or consulate where the would-be traveller has to cough up at least $25, often more.

A thriving business has been spawned by these procedures: lots of firms offer to sort out the paperwork—for a handsome fee. At the Russian end, this inevitably leads to a black market in issuing invitations.

Things used to be similar in Ukraine—but after a trial arrangement brought in for the Eurovision Song Contest, it was decided that things should be made easier permanently: from now on, European Union citizens can fly straight to Kiev and admire the cathedrals without getting a visa in advance.

Ukrainian officials hope this will prompt art-loving Brits, French honeymooners and German backpackers to visit their country in much greater numbers. Any lost income from visas should be more than offset by extra tourist spending. Alan Steel from Russia Gateway, a travel business, is sure that if Russia followed suit, there would be a “tangible increase in tourism”.

Russia does have a couple of reasons for maintaining its current rules, namely pride and the principle of reciprocity. Russians travelling to the west face stringent visa requirements, including interviews which some find humiliating. But then, very few western tourists are likely to try to start a new life in Russia, illegally—and the days when a few eccentric westerners settled in Russia for ideological reasons are gone. The Russians could lighten up on the rules and do themselves a favour.

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Arnold Schwarzenegger

A hard slog

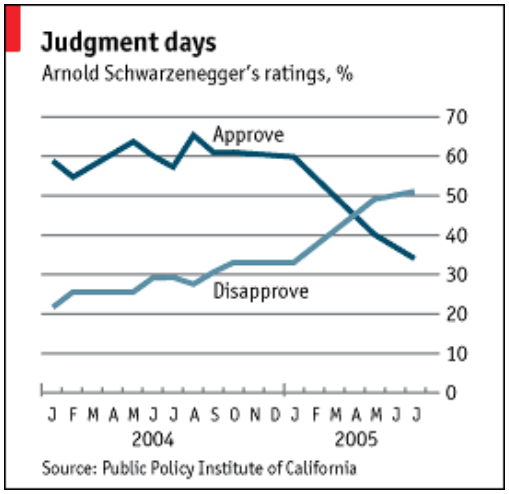
Aug 4th 2005 | LOS ANGELES
From The Economist print edition

The governor is struggling to get his reform plan through

Get article background

"FANTASTIC" remains the governor of California's favourite word. So is Arnold Schwarzenegger smoking something other than his customary cigar? His approval ratings have plummeted from the stratospheric to the dismal. His public appearances are dogged by well-organised protesters ("Arnold, Arnold, you're no good; go on back to Hollywood"). And Mr Clean has been embarrassed by a conflict-of-interests scuffle that ended with him giving up an $8m contract with body-building magazines.

Forget, for the moment at least, all that talk of Arnold, fiscally sober but socially liberal, as the man who could push the Republican Party back to the centre. Forget, too, the amendment to the constitution to allow the Austrian-born governor to run for the White House. Instead, the possibility looms that a special election that he called for November 8th will end in humiliation, with the defeat of a batch of ballot initiatives he has proclaimed as essential ingredients of his "year of reform".



The governor's approval rating last month, as measured by the Public Policy Institute of California, was a mere 34%—down from 60% in January (see chart). Almost two years into his administration, only 38% of his electorate reckon California is on the right track. The rival Field Poll has a figure of just 28%, and hints that next year the actor turned politician would have a hard time beating either of the two declared Democratic candidates, Steve Westly, currently the state's controller, and Phil Angelides, the state treasurer.

Is it really that bad? There are certainly two reasons for supposing that the positive-thinking governor is more in touch with reality than his gloomy electors. First, California is hardly on the wrong track. Its economy is expanding at an annual rate of almost 4%; unemployment, according to the Los Angeles County Economic Development Corporation, should this year average 5.3%, appreciably down from last year's 6.2%; and the aerospace, hi-tech and tourism industries are all looking healthy. The big risk is that outrageously high house prices will collapse, and consumer confidence with them—but so far that bubble shows few signs of bursting.

Second, Mr Schwarzenegger, even in his current bruised state, remains a much more powerful force than anything the Democrats can muster. His main opponents in Sacramento—Don Perata, the state Senate leader, Fabian Nuñez, the Assembly speaker and Bill Lockyer, the attorney-general—have all played some shrewd politics recently: for example, the Democrats passed a budget last month giving the governor almost everything he wanted, thus depriving him of the chance to spend the next three months railing against Democrat obstructionism. But none of these foes is a household name, with their DVDs available at Blockbuster. And the same applies to Messrs Westly and Angelides, the gubernatorial hopefuls.

In other words, Mr Schwarzenegger will be the one who draws the crowds, dominates the TV screens—and eventually wins. That, at least, is what his advisers believe. But there are doubts.

The governor has been clumsy with his initiatives. He needlessly alienated public opinion, castigating nurses and teachers as “special interests” because their unions dared to oppose his plan to put forward a ballot initiative to “privatise” their pensions. Some ill-thought-out wording in the initiative then allowed Mr Lockyer, who has a statutory duty to give a pithy description of each initiative, to argue that it would deny death and disability benefits to the families of the state's firemen and police. The initiative was duly withdrawn.

The same fate may await another of Mr Schwarzenegger's three remaining initiatives. This one seeks to put the delineation of political constituencies in the hands of an independent panel of retired judges instead of self-interested politicians. Given that last November not a single one of the 153 seats up for election in the gerrymandered state changed parties, the notion clearly has merit. Unfortunately, the wording submitted to the attorney-general differed from the language used to gather signatures for the initiative, allowing Mr Lockyer, supported last month by a superior court judge, to declare the redistricting initiative invalid. Mr Schwarzenegger's supporters have appealed the decision, so, for the moment, the initiative remains on the ballot paper.

That leaves two other Schwarzenegger-backed initiatives. One seeks to force the state's schoolteachers to wait for five years, instead of two, before they attain permanent status. The other—“Live Within Our Means”—would give the governor the authority to make mid-year spending cuts if revenues fall or if the legislature falls into budgetary deadlock.

Living beyond their means

Both would be useful. At the moment, bad teachers who scrape through their first couple of years are more or less assured of tenure for life. As for Live Within Our Means, the unilateral power to cut spending was something enjoyed by California's governors up to 1983.

Yet both measures will be vigorously opposed by the unions, especially the teachers, who are doubly aggrieved because Live Within Our Means would cut automatic increases in education spending. And the unions are also furious about a third initiative (not publicly backed by Mr Schwarzenegger but viewed sympathetically in private), preventing public-sector unions from making political contributions without the express permission of their individual members.

In theory, there could be a truce. The governor says he is open to “bipartisan compromise” and California's non-partisan legislative counsel this week ruled that Mr Schwarzenegger can cancel the election at any time.

But in practice war looks much more likely. “The governor is committed to the election,” says one Schwarzenegger adviser, Todd Harris. So, too, one assumes, are the donors who have contributed so massively to the various war-chests. Though Mr Harris claims that the Schwarzenegger camp “will be outspent significantly”, it managed to spend more than $23m on the November initiatives in the first half of the year. Alliance for a Better California, a union-backed group opposing the governor, spent more than $10m.

And who will win the war? Since most of California has yet to wake up to the coming election, today's opinion polls need to be taken with a large pinch of salt. Keep in mind, too, that the governor is a proven salesman (how else did Conan the Barbarian make his millions?) and that no one has yet made money betting against him. But he has a lot of work to do.

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America's new UN envoy

Lethal injection, or healthy tonic?

Aug 4th 2005
From The Economist print edition

The president bypasses the Senate to send John Bolton to the UN

Get article background

THE deed is done, and the United Nations is unlikely to be the same again. Ignoring fierce opposition from civil liberties groups, Democrats and even some Republicans, George Bush has chosen to bypass normal Senate confirmation procedures to appoint John Bolton while Congress is in recess. The droopy moustache fools no one; this is an outspoken advocate of America's global hegemony.

Senate Democrats, who had held up Mr Bolton's confirmation for five months, are outraged—as much by the manner of the appointment, which is legal but sneaky, as by the man appointed. The minority leader of the Senate, Harry Reid, characterised the use of a recess appointment as "the latest abuse of power" by the White House. Even some Republicans reckon that the president's failure to win bipartisan Senate approval, and his way of getting round it, would cause Mr Bolton to be seen as damaged goods. It is the first time since 1948 that an American ambassador to the UN has been appointed in this way, and means that Mr Bolton will be able to serve only until the end of the present Congress in December 2006.

In the past, Mr Bolton has seemed to treat the UN with something less than full respect. He once suggested that "it wouldn't make a bit of difference" if the UN secretariat building in New York were to lose ten storeys, and declared that the Security Council needed only one permanent member "because that's the real reflection of the distribution of power in the world—the United States." In so saying, Mr Bolton speaks for all those neo-cons who regard the UN as a costly, corrupt, anachronistic impediment to the free exercise of American power.

Many UN members fear that Mr Bolton's appointment will signal America's desire to lower the beleaguered world body into its grave. But others believe that the choice of such an outspoken, hard-driving heavyweight with a direct line to the highest levels of the administration could actually provide the "kick up the pants" that the UN needs. Mr Bush's expression of his "complete confidence" in his new envoy can only help.

"The worst thing that could have happened to us would have been the appointment of a weak ambassador," a senior UN official concedes. "Bolton's appointment shows that the United States wants to be engaged." It could also help bring some of the UN's most ferocious critics behind the reforms to which Condoleezza Rice, the secretary of state, insists both the United States and Mr Bolton are committed.

Many may snigger derisively at such a claim, remembering America's frequent dismissal of the UN as "irrelevant" after its failure to back the Iraq war. But in testimony to the Senate Foreign Relations Committee last month, Nicholas Burns, one of Ms Rice's under-secretaries, sounded astonishingly supportive of the UN, praising its many achievements in bringing economic development, security and peace to the world, and pledging American backing for most of Kofi Annan's proposed reforms, due to be endorsed by world leaders at a UN summit in New York next month.

In particular, Mr Burns remarked that the UN could not function effectively without "an interested, focused and committed United States". "It is therefore vital", he went on, "that the US lead the United Nations, that we have faith in the UN, pay our dues, promote reform and contribute to strengthen the UN for all the many challenges ahead."

Some doubters are still wary. "Unilateralists, like Bolton, don't really want to destroy the UN; they just want to control it or paralyse it if it doesn't do what the US wants," says one old acquaintance of the new ambassador. But administration officials point out that the reforms sought by the United States are too near completion for Mr Bolton to be able to meddle much. His role will be more to execute policy

than to formulate it, they say. He could be rather good at that.

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Prison rape

The silent horror

Aug 4th 2005 | WASHINGTON, DC
From The Economist print edition

A horrific picture of life inside, but the truth is probably worse

AP

Praying to get out

"I'M NOT small," says Keith DeBlasio, "I was six foot two and 220lb when I went to jail." But his size did not protect him. While in jail for forgery, Mr DeBlasio complained that a fellow inmate was making threatening advances to him. Prison officials at first did nothing, he says, and then put him in the same cubicle as his assailant, who was being treated both for mental illness and for HIV.

Mr DeBlasio might have been able to fight him off, but the man was a gang boss, and a crowd of his homemade-knife-wielding friends were standing nearby. Plus, Mr DeBlasio, unlike the prison authorities, did not know that his rapist was HIV-positive. "The judge gave me a five-year sentence, but somehow along the way it became life," he says.

That prisoners get raped by other prisoners is hardly news. It is the staple of television shows and the subject of "jokes" by, for example, California's attorney-general, who said he'd like to escort a rich white-collar suspect to an "8 by 10 cell that he could share with a tattooed dude who says: 'Hi, my name is Spike, honey.'"

Since everyone knows it goes on, it seems odd that the government has never tried to measure it. But on July 31st, the Department of Justice released its first statistical report on rape behind bars. Based on a sample of 2,730 jails, the department's statisticians estimated that there were 8,210 reported allegations of sexual violence in American jails last year. (The prison population is about 2.1m, though many more pass through each year.)

Welcome though it is, the report has captured only a fraction of the problem. Even outside jail, most rape victims do not report the crime, notes Mr DeBlasio, and they are unlikely to be confined to a cell with their assailant. In jail, "snitches" are often murdered, which may explain why more prisoners in the report complained of being molested by prison staff than by other inmates. In state prisons, most cases of warders molesting inmates involved women molesting men. But 90% of the victims and perpetrators of convict-on-convict sexual offences were male.

The survey was required under the terms of the Prison Rape Elimination Act, a bipartisan law passed in 2003. The next step is to start distributing anonymous questionnaires to prisoners, which the Department of Justice will start doing later this year. It is sure to find grim results: Cindy and David Struckman-Johnson of the University of South Dakota tried something similar in mid-western jails and

found that at least 7% of male inmates had been raped and 21% sexually molested.

When the problem has been more accurately measured, perhaps something will be done about it. A good start, says Lovisa Stannow of Stop Prisoner Rape, a campaigning group, would be to separate those most at risk—the small, the young, the non-violent and the openly homosexual—from their more dangerous cellmates. Jamie Fellner of Human Rights Watch also suggests making it easier for prisoners to report abuses directly to the top management. “You don't find a high incidence of rape in well-run institutions,” she adds.

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City transport

A joy to hail

Aug 4th 2005 | NEW YORK
From The Economist print edition

Our man on the street corner celebrates

THE taxis of New York City remain depressing modes of transport. The models made before 2002 could be loved only by tailors, who have found good work mending the trousers ripped by squeezing between the seat and the partition. Even the newer models, with six more inches of space and lots of strict rules, soon acquire an interior much like a toxic waste dump.

But what is this, trundling over the horizon? Can it be a stately, roomy London cab? Indeed. For the past six months, a single 2003 London cab has been braving New York's mean streets on a trial basis.

Its owner, Allen Kaplan, runs a fleet of 300 standard issue Ford Crown Victorias (the trouser-splitting yellow ones). He has dabbled in the past with interesting niche models, including the much-loved Checker, then Peugeots, then natural-gas-powered sedans. These efforts were not entirely successful. Since the number of taxis is limited by law to ensure demand, and since the price that can be charged is similarly regulated, there is no reward for providing a superior ride.

In the 1950s, both Philadelphia and New York had brief flings with London cabs. The current fashion was started by a Massachusetts entrepreneur who, after he had sold off the “Finagle a Bagel” food chain, returned from a holiday in Britain inspired. Sales in 2002, the first year, were 26 cars. Another 224 have been sold since, with many ending up in Chicago, Las Vegas and Los Angeles, among other places. Mr Kaplan bought his one for his mother, before he had a better plan.

In June, the cab's manufacturer, Britain's Manganese Bronze Holdings, bought control of the American operations as part of a plan to boost exports from their current level, “approaching three figures”, to something a bit more substantial. There is reason to be optimistic. Mr Kaplan thinks the cab has been a big hit with the public. It has been discovered by Hollywood producers, who want to put it in movies. Other people ask to take it for a drive.

The cab does, however, have its problems. It costs around $50,000, roughly double the price of a Crown Victoria (though it depends a bit on the model). And essential parts, such as windscreens (which need replacing horribly often in New York), are hard to get quickly. Manganese says costs could be offset if cabs could be repainted as moving ads, as in London. Prices would also come down if overall manufacturing volume, now at 2,500 a year, could be increased.

Meanwhile, how come that light has switched to “Off Duty”?

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State fairs

From Vikings to mobile phones

Aug 4th 2005 | GREAT FALLS, MONTANA
From The Economist print edition

A venerable American institution becomes a little more urban

AP

You've come a long way, Babe

“THE best food ever” is an ambitious tag for a breaded meatball on a stick. But this delicacy, unaccountably called a Viking, is hailed as such by some people at the annual Montana state fair. What's the secret? Beef, veal and pork are mixed with egg, canned milk, oatmeal and spices. The concoction is cooked, dipped in batter, then deep-fried. “We wait for it all year—it's the only place you can get 'em,” explains Jan Sheryak, a fairgoer who has doused her Viking with ketchup.

Fair season in America is just getting underway. In most states this means a week-long frenzy of grease-gulping, rollercoasters and pig-racing, as well as more civilised activities such as goat-milking and quilting. Montana's fair, one of the earliest, is taking place this week. It could pull in 140,000 if the weather co-operates.

There are still plenty of agricultural trappings. Judges hand out ribbons for everything from sheep-breeding to Lego-stacking. Not to be missed is the “World's Largest Steer”: Big Red is more than 6 feet tall, 11 feet from nose to tail and, sadly, kept in a small pen. But fewer than one in 20 Montanans now live on farms. “In most places, there are less agricultural exhibits,” says Tom Atkins, who co-owns the travelling Mighty Thomas carnival. Since seven-year-olds no longer grow up milking cows every morning, they have to be introduced to these strange animals in petting zoos.

Meanwhile, two other urban blights are also forcing their way into state fairs: advertising and politics. In the old days, “marketing” usually meant no more than getting the fertiliser company to sponsor the prize for the sheepdog trial. Now Gary Goodman, of the International Association of Fairs and Expositions, points out that Madison Avenue is paying a lot more attention to the audiences that fairs draw in. The families who come are in the mood for entertainment and, to advertisers' especial delight, they are nowhere near their TiVos (ad-skipping remote controls).

The new consumer businesses want to make their events more interactive. At the Montana fair, Qwest, a telecom company, invites fair-goers to audition to be in its commercials. Hormel Foods, the maker of SPAM, sponsor a recipe contest at fairs across the country: the winner in Montana was “SPAM chops”, garnished with pear and pepper chutney (and arguably as vile as the Viking). At the huge Los Angeles County fair in September, Levi Strauss will peddle a body-scanning technique that will allow fairgoers to find the perfect pair of jeans in 10 seconds, says Mary Ann Halford of the Fair Network, a company which arranges sponsorships.

There has always been a degree of politicking at state fairs, but carousing with drunken farmers has

given way to a more urban form of democracy. The Montana fair boasts two opposing booths: one, backed by PFLAG (Parents, Families and Friends of Lesbians and Gays) laments a recent state ballot initiative that banned gay marriage; the other booth joyously offers “Freedom from sodomy, Freedom in Christ”. The culture wars have reached the greatest American event of all. Oink.

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Lexington

The lucky duck

Aug 4th 2005
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Republican Party managers love George Bush, but ideologues are unhappy

SO MUCH for the lame-duck president. George Bush has flown back to Texas with a quiver-full of achievements under his wing. Before breaking up for the summer, Congress passed a gargantuan energy bill, a gigantic highway bill and a hard-fought Central American trade bill. The Senate also voted (unanimously) to make the Patriot Act permanent and (by a large majority) to shield the gun industry from being sued by shooting victims. Mr Bush completed a hectic week by appointing John Bolton as his ambassador at the United Nations.

It is easy to downplay all this. The energy bill and the highway bill had been hanging around for years. The widespread nervousness among Republicans about Mr Bush's low approval ratings (44% in the latest Gallup poll) translated into a desire to get things done—so that they would have something to brag about to their constituents. Mr Bush had to make Mr Bolton a recess appointment, because he couldn't get him past the Senate.

Yet these successes illustrate two of Mr Bush's strengths. First, they underline his personal politicking skills. He threw himself into the battle for CAFTA, going up to Capitol Hill to tell Republicans that the free-trade pact was a national-security issue as much as anything else: America needed to shore up democracies in Central America and the Caribbean, he apparently argued, or leave them prey to the likes of Hugo Chávez and Fidel Castro. Second, the successes are a tribute to Mr Bush's energetic party-building. The Republican majority in Congress has allowed him to keep advancing even when the political winds are blowing hard against him. This is a vindication of his strategy of embracing his party rather than ignoring it (like Richard Nixon) or triangulating against it (like Bill Clinton).

An impressive display of presidential clout, to be sure; but who exactly is profiting from it? Mr Bush is proving far more successful at rewarding his corporate backers than at rewarding his ideological allies—and much more successful at consolidating Republican Party power than at advancing the interests of the conservative movement. This duck is more of a machine politician than an ideological zealot.

This was not a good week for small-government conservatives. The transport bill will cost $286 billion over six years (a third more than the last such effort) and it contains some $24 billion-worth of pork—including $231m for an (obviously vital) “Don Young” bridge in Alaska, put there at the behest of the eponymous Republican chairman of the House Transportation and Infrastructure Committee. The

energy bill contains $85 billion-worth of subsidies and tax breaks for almost every form of energy you can imagine.

Mr Bush has his excuses. All transport bills are bacon-packed; he tried to keep a lid on it. But he clearly didn't try hard enough: the bill is $2.4 billion more than his supposed veto limit. And he is wearing it as a feather in his cap rather than denouncing it as a budget-busting abomination. As for energy, it was the White House rather than Congress that originally turned the bill into a giveaway. This is the politics of LBJ rather than Barry Goldwater.

By contrast, Mr Bush has made little progress in advancing his vision of an “ownership society”. This is not for lack of trying: his diary is crammed with speeches and town-hall meetings to sell his Social Security reforms. But it is nevertheless a comment on the balance of forces that Mr Bush has done so much to create, not least by his addiction to playing hard-ball politics with Democrats. He can push through un-ideological corporate laws. But when it comes to more partisan fare, he runs up against a united Democratic opposition. He has not changed the ideological weather in the way that Ronald Reagan did.

Gold-plated returns on investment

This helps explain why conservative idealists are unhappy, but Republican Party managers are delirious. The latest flurry of legislation has provided dramatic evidence that “this is a governing party”, in the words of Roy Blunt, the House Republican whip. The two-vote victory for CAFTA (217 to 215) showed that, in the House of Representatives at least, the months of damaging publicity about his ethics have done little to weaken Tom DeLay. The Republican enforcer still has an iron grip on his troops.

From the party's point of view, the pork is useful—helping to entrench the Republican Party as the natural party of government while weakening the Democrats. Corporate America will have every incentive to continue to give generously to the Republican machine now it knows that the party is still delivering gold-plated returns on their investment. And Republican lawmakers will have more chance of winning re-election in 2006 now that they have shown that they can bring home the bacon. (Mr DeLay, who faces a tough battle for re-election, carefully tucked plenty of goodies for the inhabitants of Sugar Land, Texas, into both the energy and transport bills.) And the Democrats will find it more difficult to raise money now that tort reform, which was passed earlier in the year, has weakened their most generous group of supporters, trial lawyers.

This is not to say that Mr Bush is guaranteed a restful summer. Mr Bolton's appointment is a gamble. The Republican Party is tearing itself apart over stem-cell research. Iraq is still a nightmare. The latest polls show that Mr Bush has got little bounce from his legislative achievements, and the Republicans only just hung on to a safe House seat in a special election in Ohio this week. And Washington is abuzz with rumours about who will be caught in the fall-out from the Valerie Plame affair.

But the vista from Crawford is not all bad. The economic news is surprisingly good, with a falling deficit and healthy consumer spending. The Democrats are in a funk. The Republicans are still as hungry for power and its perks as ever. This is still a duck with luck on his side.

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Brazil and China

Falling out of love

Aug 4th 2005 | SÃO PAULO
From The Economist print edition

Brazil's affair with China is going off the boil

Get article background

THE high point came last November, when Hu Jintao, China's president, arrived in Latin America to sign a series of trade and investment deals that heralded a new relationship between a rising superpower and a continent eager for economic growth. Nowhere was he greeted more warmly than in Brazil. Its left-leaning president, Luiz Inácio Lula da Silva, sees China as the country's most promising business partner and an ally in boosting Brazil's global influence.

Toasting their “strategic partnership”, Lula predicted that trade with China would more than double to $20 billion in three years. China promised to invest $10 billion in Brazil, mostly in infrastructure. Brazil, along with Argentina and Chile, recognised China as a “market economy”, thereby constraining their ability to retaliate against imports. Brazil hoped for Chinese backing for its bid for a permanent seat on the UN Security Council.

But the euphoria has already given way to a rising fear of Chinese imports, disappointment at the pace of investment and Brazilian anger that their government has weakened the country's trade defences without getting much in return. China is “not a strategic partner”, says Roberto Giannetti da Fonseca, head of trade issues at FIESP, which represents industry in the state of São Paulo: it merely “wants to buy raw materials with no value added and to export consumer goods.” As for infrastructure investment, Paulo Fleury, a specialist in the subject, detects “lots of smoke and little fire”. Meanwhile, on the diplomatic front, China is opposing Brazil's joint bid (along with Japan, German and India) for permanent membership of the Security Council, though this is to block Japan, its arch rival, rather than Brazil.

If the euphoria was overdone, so is the despair. China is likely to remain an engine of Brazil's economy, though more as a customer than as an investor. The threat from imports is certainly growing, but so are export opportunities. China, like the United States, is becoming an indispensable partner, to be handled with care.

The two countries are often described as “complementary economies”. Therein lies much of the terror and promise of their relationship. China's breakneck pace of development requires commodities that Brazil is well placed to supply. It also gives China an incentive to invest in Brazil's infrastructure,

opening bottlenecks that hinder growth. Yet no big developing country is content merely to complement China, which seems unbeatable in the sort of manufacturing that generates lots of jobs. And the synergy that looks good on paper is proving hard to put into practice.

For an economy vulnerable to financial panics, trade with China has been a boon. According to government figures, Brazil's exports to China jumped from $676m in 1999 to $5.4 billion in 2004. Although imports surged too, Brazil ran a surplus of $1.7 billion with China last year. But, as FIESP points out, such trade mainly involves swapping commodities for more sophisticated products. Nearly 60% of Brazil's exports to China are primary goods, largely soya and iron ore. Imports from China are higher-tech and more varied, with electronics, machines and chemicals in the lead. Now China is making inroads into such labour-intensive sectors as textiles, shoes and toys, too.

Judging by official data, the Chinese threat looks small. In shoes, for example, total imports account for about 1% of Brazilian production. In other cases, China appears often simply to be replacing traditional suppliers. But such statistics omit goods that are smuggled into Brazil or are “under-invoiced” to dodge taxes. Some two-thirds of Brazil's pirated products are produced in China. More than a newly paved motorway, the symbol of Sino-Brazilian relations is a cache of 66,000 Brazilian army uniforms, which tax authorities recently discovered being smuggled into the country. Though labelled “Made in Brazil”, they were actually made in China.

Even where Brazil is competitive, it faces obstacles. Brazilian farmers still seethe over last year's rejection by China of soya shipments costing hundreds of millions of dollars. China claims they were contaminated; Brazilians spy a ruse to back out of costly contracts. Embraer, a Brazilian aircraft manufacturer, recently set up a joint venture to build short-haul jets in China, but sales have not measured up to expectations.

Blame for the slow pace of Chinese investment in Brazil lies with both countries. Brazil has yet to publish rules that would activate public-private investments in infrastructure. China imagined that it could build Brazilian railroads with Chinese labour in exchange for long-term contracts to buy commodities at fixed prices—two delusions in one.

From all this, a new realism is likely to emerge, including tougher diplomacy on both sides. In conceding market-economy status to China, Brazil “could have driven a harder bargain” than it did—for example, by securing an expansion of meat exports, says Renato Amorim of the Brazil-China Business Council. Under pressure from textile manufacturers and others, Brazil's government has now drafted rules for “safeguards” directed specifically at China, which has threatened to retaliate.

But realism does not ignore opportunities. With China set to expand its textile exports, Brazil could increase its 1% share of the cotton market dramatically, says Marcos Jank of ICONE, a think-tank. China's urbanising population will soon be demanding more Brazilian pork and poultry, too. According to the Inter-American Development Bank, China's trade barriers are generally in line with those of other developing countries and are gradually being lowered.

The result is likely to be a reshaping of Brazilian industry, not its destruction, says José Roberto Mendonça de Barros of MB Associados, a consultancy. He reckons that Brazil will retain its edge in a wide range of industries, including small cars, T-shirts, bathing suits and machinery for energy and mining. The country's remoteness and high transport costs will protect other industries, he adds.

Brazil will get its $10 billion of investment eventually, if investors are confident of turning a profit. Chinese companies do not want to become “the World Bank” of Brazil, says Charles Tang, president of the Brazil-China Chamber of Industry and Commerce. Both countries are better off without such illusions.

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Central America

Nothing's free in this world

Aug 4th 2005 | MANAGUA
From The Economist print edition

What to expect from the Central American Free Trade Agreement

THE intellectual case for free trade is a clear one. In economists' ideal models, removing trade barriers between countries leads to greater prosperity. Things are trickier in the real world.

CAFTA, the Central American Free Trade Agreement, was finally ratified by America's Congress at the end of July after a long political battle, and signed into law this week by President George Bush. Of the six other signatories to the treaty, El Salvador, Honduras and Guatemala have already ratified it. Despite remaining political obstacles, Costa Rica, Nicaragua and the Dominican Republic seem set to do so within the next few months. But, as in the United States, the reasons for ratification—and its main effects—are likely to be more political than economic.

As the World Bank, a CAFTA partisan, suggested in a report in June, forecasting the economic effects of the treaty is more art than science. Those predisposed towards free trade see economic benefits looming, while protectionists see disaster for the region's poor. But CAFTA is unlikely to provoke much sudden change. More than 80% of the region's exports to the United States are already free of duty as a result of regional and bilateral agreements going back to the 1980s. And, for farm products most vulnerable to competition, such as rice and chicken legs, CAFTA will scale tariffs only gradually to zero over the course of the next 20 years.

Paradoxically, the biggest impact of this trade treaty will probably not be on trade as such, but on investment, says Sydney Weintraub of the Centre for Strategic and International Studies, an American think-tank. The upswing is likely to come not only from American investors, but also from those in Europe and Asia who regard the treaty as a sign of stability. If increases analogous to those that occurred in Mexico in the wake of the North American Free Trade Agreement (NAFTA) do take place, it would provide a huge economic boost for a region whose infrastructure remains startlingly basic. Nicaragua, the poorest of CAFTA's signatories, still has no paved roads reaching its Atlantic coast.

Even in the worst case, where the impact on both trade and investment is negligible, that very stability would be valuable, argues Jorge Mario Martínez-Piva, a UN economist in Mexico City. Indeed, Jaime Rivera of Bladex, a regional bank, believes that CAFTA will make the region's businesses more competitive and more open to scrutiny. This, he predicts, will lead to a virtuous circle that will force governments too to be more open, because of pressure from business.

Another likely benefit is an increase in intra-regional trade. Apart from Costa Rica, the economies in the region are heavily dependent on the United States market. Exports to the United States account in all

cases for at least half of total trade and, in the case of Dominican Republic, for as much as 84% of export earnings. Roberto Artavia Loria of INCAE, the region's leading business school, says CAFTA will eliminate many of the current non-tariff barriers to intra-regional trade (such as politically motivated health regulations), thereby allowing growth in such commodities as oils and dairy products. The increased competitive pressures are also likely to oblige the region's economies to diversify away from commodities—in which it anyway faces increasingly fierce competition from larger economies like China and Brazil—and into value-added sectors. “You can't trade rice for Toyotas,” Mr Artavia asserts.

The remaining political hurdles seem manageable. Although opinions are divided in Central America, the sentiment against free-trade policies is not nearly as strong as anti-globalisation activists would have it. A poll last month of Costa Ricans found that 47% of respondents believe that CAFTA will bring economic benefits (down, admittedly, from 59% a year earlier), while 45% believe the treaty will increase poverty.

In Nicaragua, CAFTA is causing new tensions in the tenuous alliance between the left-wing Sandinists, who oppose the treaty, and the right-wing Liberals, who support it. However, in a clear illustration of the institutional stability that CAFTA's proponents say the treaty will bring, Daniel Ortega, the Sandinists' boss and leader of Nicaragua through its bitter civil war in the 1980s, has pledged to abide by the terms of the treaty if it is ratified and his party wins the 2006 elections (which is not unlikely). Memories of the trade embargo imposed during the civil war by America, which supported the right-wing contras, remain vivid in Nicaragua, leading even the left to believe that the constraints imposed on the United States by CAFTA could prove useful.

Panama is likely to follow its neighbours with a bilateral trade pact with the United States in the next six months. Both sides say that an agreement has been close for a while, but has been delayed while CAFTA was pending. The Andean countries seem eager to follow suit. A Free Trade Area of the Americas, which not long ago seemed dead in the water, is now starting to look like a distinct possibility.

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Saudi Arabia

New king, same dreadful job

Aug 4th 2005 | CAIRO
From The Economist print edition

AFP

Will his formal accession encourage King Abdullah to reform his country—or will oil's high price let him sit back and twiddle his thumbs?

FEW deaths have been so often rumoured as that of King Fahd. So there was little surprise when the monarch, thought to be 83, did pass away on August 1st, two months after entering hospital and ten years after a crippling stroke (see article). Oil markets fluttered briefly; the kingdom owns nearly a quarter of the world's known reserves. Flags dropped to half-mast in many Arab capitals, an acknowledgment of the clout that attaches to such wealth. But not in Riyadh itself, since Wahhabi clerics, key allies of the ruling family since the 18th century, hold the lowering of the Saudi flag, inscribed as it is with the words “God is One and Muhammad His Prophet”, to be tantamount to blasphemy.

Many analysts say the kingdom founded by Fahd's father, King Abdel Aziz ibn Saud, is in peril. Oil revenues began to slide soon after Fahd assumed the throne in 1982. For two decades thereafter, Saudi GDP grew at barely half the rate of its population, pushing the country into debt and straining the generous welfare state that bought the Al Saud family their subjects' goodwill. King Fahd's effort to erase his previous reputation for high living by championing conservative Islam bred forms of radicalism that became combustible when the king invited “infidel” America to protect his realm from Saddam Hussein's Iraq. Talk of colossal corruption and of rivalries between senior princes fuelled fears of schism inside the ruling family. Saudis grew anxious about external threats, too, after the attacks of September 2001 by their fellow citizens unleashed a storm of American anger and strident warnings that Saudi Arabia must reform or die.

But the Al Saud family's fortunes appear, at least in the short run, to have perked up in the past few years. Soaring world demand for oil and steep prices have swiftly refilled the coffers. Property and stockmarkets are booming, and massive investments planned for infrastructure should herald a period of sustained growth. Youth unemployment is now viewed as a containable threat to stability.

The violence of Islamist radicals, which has killed more than 100 people in the kingdom in the past two years, may even, in some respects, have strengthened the state: most Saudis appear to have rallied to the government's side, while the police have rooted out many extremists. Radical cells and ideas still thrive, but mostly, for now, on the margins of society. The need for security has helped insulate the Al Sauds from what had been a growing wave of activism at the other end of the political spectrum, by reformist liberals.

The threat from abroad has receded a bit, too. Competition for fat Saudi contracts may again mute criticism of the country's internal policies. Saudi Arabia's own troubles with Islamist terror have lessened accusations that the Al Sauds, directly or otherwise, sponsor violence. The agony of Iraq may temper the Bush administration's impatience for Saudi reform. So too have small but real reformist measures, such as privatising and opening chunks of the economy, purging schoolbooks of hate-mongering material and this year's holding of municipal elections.

So far, the ruling family looks fairly cohesive. Abdullah, crown prince for 23 years, assumed the throne automatically and immediately named his half-brother, the long-serving defence minister, Prince Sultan, aged 80 or so, as his successor. In the past the pair have been seen as bitter rivals, with the more reform-minded Abdullah being serially thwarted by Sultan's powerful Sudairi branch of the family, named after King Abdel Aziz's favourite wife. Abdullah may be too frail to push hard for change, but any initiatives he does take may meet less resistance, now that Sultan is assured of eventual accession.

Such changes are likely to be timid. The monarchy is consensual, with key decisions filtered through the demands not only of the country's 7,000-odd princes (of whom some 200 really count) but also of business and tribal interests and the powerful religious establishment. There are some good institutions (strong financial, health and transport systems and, even, at times, some daring media) and some very bad ones: opaque, *sharia*-based courts; nastily intrusive religious police; and state schools saturated with reactionary religion. Ugly inequities persist, most obviously for women but also for 6m foreign workers. Saudi rulers are almost wholly unaccountable for the state's finances.

When King Fahd came to power, such issues were seldom aired. Now, to a degree, they are. King Abdullah may open things up a bit more. Oil has given him a breathing-space. Not, perhaps, for long.

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The Gulf and its oil

Slurping around

Aug 4th 2005 | CAIRO
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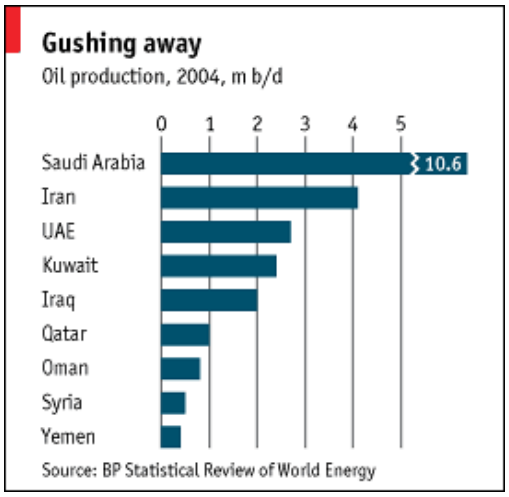
A multi-billion-dollar windfall is being spent with varying degrees of wisdom



WITH the price of oil rolling past $60 a barrel, where is the producers' windfall falling? Some of it is going on useful things like roads and schools and paying off debts, some gets recycled, flowing back to energy-thirsty countries in the form of higher demand for their goods. Quite a lot of the cash, though, may be blowing bubbles in Arabia, as in giant stockmarket ones, or getting buried in the sand.

For Gulf oil producers, boom times are back, with a fury unseen since the oil-price shocks of the 1970s. In 2003, the six Arab monarchies that make up the Gulf Co-operation Council sold some $145 billion-worth of oil and gas. At current prices, that total looks set, this year, to double. The value of Saudi oil exports since 2002 has equalled oil revenue for the whole of the 1990s. The Saudi authorities say that investment in the first half of this year was 17 times last year's first-half figure.

Small wonder that in April a public share offer by a start-up oil firm in mega-rich Abu Dhabi, one of the seven United Arab Emirates (UAE), ended up 800 times over-subscribed. The company, Aabar Petroleum Investments, had sought to raise a modest $135m in capital. In the event it won pledges worth over $100 billion, a sum that is a quarter bigger than the UAE's entire GDP. Lucky banks that jumped to lend to some 87,000 punters in the emirates on the issue earned considerably more in fees and interest than did the issuing company. On an earlier IPO that was 458 times oversubscribed, banks are said to have pocketed $500m. Most UAE banks have still posted half-year profits this year bigger than for all of 2004.

The urge is to get in on the action. UAE stock indices are up by 90% this year, with the price-to-earnings ratio of listed firms now wobbling at an average of 35. Indices across the GCC are up by 70%; the region's total market capitalisation now tops $800 billion, equal to 170% of GDP against barely 50% three years ago. In tiny Qatar, the overall market cap (including the value of untraded government companies) is nearly five times GDP, even after a crash in April that slashed values by 20%.

Nomura, a Japanese securities firm, says it all looks eerily like the NASDAQ bubble of the late 1990s. Queasier investors have turned to more solid stuff. Sales of gold have soared—and of Bentley cars: the firm reported a fourfold rise in demand from Gulf-state customers last year.

But the biggest bucks are flowing into property. Artificial lagoons and landfills, spiked with villas, hotels

and apartment towers, are growing all over the Gulf. The world's would-be tallest building is already under construction in Dubai, whose latest fantasy development, City of Arabia, with no fewer than 35 skyscrapers, promises to house the world's largest shopping mall. Bahrain, Saudi Arabia and Qatar are embarking on lots of similar projects. Even sleepy Oman, a relatively poor cousin, has plans to convert a few miles of Indian Ocean beachfront into Blue City, at a cost of a mere $15 billion.

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Israel and Palestine

Trying to leave Gaza nicely

Aug 4th 2005 | JERUSALEM AND RAMALLAH
From The Economist print edition

The hardest question is no longer about disengagement day but the day after

DESPITE large but peaceful demonstrations this week against the evacuation of Israeli settlements in the Gaza strip and a northern bit of the West Bank, a tentative confidence is growing that the pull-out itself, due to start on August 15th, could be relatively fast and painless.

But then? The security forces of the Palestinian Authority (PA) are meant to keep militant groups from shelling the Israelis as they depart and then to keep Gazans from invading or looting what they leave behind. Yet low pay, corruption, the PA's general unpopularity, the power of local family heads and militant networks, the use of jobs as patronage and, not least, the destruction of most of their equipment and facilities by Israel during the second *intifada*, which ended early this year after four years, have left the security forces demoralised, undisciplined, bloated, fragmented and ill-equipped. Meanwhile, militant groups such as Hamas, with an interest both in attacking Israel and in undermining the PA, have gone from strength to strength, especially in Gaza.

Strategic Assessments Initiative (SAI), a private, non-profit group, has been assisting the PA, alongside Lieutenant-General William Ward, the American envoy sent out in the spring to help the PA forces to shape up. Reforms have begun, but the disengagement is an “unfair test” of the forces so soon, says Jarat Chopra, who runs SAI's mission.

So how ready are they? “Are you ever as ready as you want to be?” asks General Ward. “The issue is, are you doing things day to day to cause your preparations, your readiness, to improve? There are things going on to cause orders that are being issued to be carried out. You're increasing chain-of-command sorts of things, you're increasing responsibility, there are discipline things that are going on.”

More light was shed by an 83-page SAI report the week before, which painted a more depressing picture, though it noted some encouraging trends. The PA has been trying to bring a single “chain-of-command sort of thing” to the dozen-odd forces created under the late Yasser Arafat. Steps towards reform include putting most of them under the authority of the interior minister, Nasser Yusuf; replacing most of the chiefs; passing a retirement law for the oldest officers; and reopening several kinds of joint-operations rooms. But, says SAI, most of these measures are only partly implemented; “the organisational structure of the [interior ministry] has not been substantially improved.”

Moreover, say sources close to the PA's security forces, power struggles continue: in particular, Musa Arafat, the former head of military intelligence, and Muhammad Dahlan, once the head of preventive security in Gaza and now a key government minister, have been trying to keep some officers loyal to them. An attempt to recruit 5,000 new troops to guard the evacuated settlements collapsed when over 70,000 applications were received. Instead, the guard force will be patched together from various others; according to the sources, it is currently a little over 2,000 strong, though it should get close to its target.

Israel has allowed the PA to acquire communications equipment and body armour but not guns, ammunition or armoured vehicles. It no doubt worries that there are not enough “discipline things going on” to keep them from falling into the wrong hands: a fair worry. But it also undermines Israel's frequent claim that the PA forces should be able to do more against the militants because they far outnumber them. According to SAI, the PA forces have only a quarter as many guns as people on the payroll. And, says one security source, the PA has only a third of the weapons in the Gaza strip.

In all, says Mr Chopra, “nobody knows what will happen” after Israel goes. Hamas and other militants may hold their fire or try to embarrass the PA by stirring up trouble; Gazans may keep a dignified order or stampede the evacuated settlements; the guard force may hold them back, or crumple, or, worse,

beat them off with fatal results; officers may—or may not—obey Mr Yusuf. Either way, the focus is no longer only on whether Israel can carry out the disengagement but on whether the PA can handle its aftermath.

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Iran

Ever closer to the nuclear brink

Aug 4th 2005
From The Economist print edition

Are the Europeans' negotiations with Iran about to break down for good?

Get article background

IN THE seemingly endless saga of Iran's brinkmanship over whether it would go nuclear in a manner that would enable it to make nuclear weapons, the Islamic republic is closer than ever to leaping over the brink. Earlier this week, its negotiators said that Iran would restart a uranium-conversion facility where work had been suspended for the past two years as part of an agreement with the three European countries—Britain, France and Germany—that have been trying to persuade Iran to curb its nuclear plans in return for a package of mostly economic incentives.

The E-3, as the negotiating team is known, were poised this week to present a new clutch of inducements. But if Iran carries out its threat to restart the conversion facility without even perusing the Europeans' proposals, the negotiations may well break down for good. The EU would then back the Americans in taking the issue to the UN Security Council with a view to imposing economic sanctions on Iran. In the past, the mullahs have relied on Russia, which has built a nuclear power station in Iran, and/or China, which expects soon to be getting at least 12% of its energy from Iran, to veto a sanctions resolution. It is just possible that both might abstain. So Iran may yet, once again, hold back at the last minute.

The E-3's proposals, as well as offering economic incentives (including trade deals and support for Iran's application to join the WTO) and help with those of Iran's nuclear plans that are plainly for civilian purposes, will also include assurances that Iran may play a part in regional security, especially over Iraq and Afghanistan. This, in effect, gives clearer recognition to the fact that, whether the United States and its allies like it, Iran can influence events in next-door Iraq.

Is that enough to dissuade Iran from breaking off negotiations with the E-3 and then breaking out of the Nuclear Non-Proliferation Treaty? European negotiators are pessimistic. Since the election of the ultra-conservative Mahmoud Ahmadinejad as president (he was formally installed this week), instead of the more flexible Akbar Hashemi Rafsanjani, the Iranians have sounded more recalcitrant. Most western negotiators now reckon that Iran, while seeking to maintain a muddy ambiguity, will go for a nuclear bomb. And, UN sanctions apart, no one really knows what to do.

So have the E-3's two years of negotiations been a waste of time? No, says a senior negotiator. By getting Iran to suspend some of its most dubious activities for two years, the Europeans have slowed the Iranians down. Governments around the world have had to take the issue of nuclear proliferation—and the International Atomic Energy Agency, the UN's nuclear watchdog—more seriously. And at least on this score, the United States has seen the merit of co-operation with Europe.

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Sudan

The death of John Garang

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From The Economist print edition

Will Sudan's peace accord survive—amid riots in north and south—without the south's charismatic leader?

AFP

Will he prove irreplaceable?

FEW men have managed the transition from guerrilla leader to political leader with as much international acclaim as John Garang, leader—until his death in a helicopter accident last weekend—of the Sudan People's Liberation Movement (SPLM). For 22 years, he led Sudan's mainly Christian and animist south in a bloody armed struggle against the country's Muslim Arab government up north in Khartoum. The contest finally ended in victory in January, when Mr Garang won almost total autonomy for south Sudan in a comprehensive peace agreement, known as the CPA, with the central government in Khartoum. This new political reality was ceremoniously confirmed as recently as July 9th, when Mr Garang was joyfully sworn in as Sudan's first vice-president in a power-sharing government headed by his old enemy, President Omar Bashir. Under the deal, the south is entitled, after six years, to have a referendum that could lead to complete independence.

The CPA was one of the few recent bright spots in a continent still plagued by civil wars, famine and corruption. So Mr Garang's death has not only shocked his own people but has shaken all of East Africa, where he had become a confidant of presidents and a folk-hero to many ordinary people. Worse, many fear that without Mr Garang's forceful leadership, the whole peace agreement may unravel, for he died at a pivotal moment in the creation of a fledgling south Sudanese state.

Mr Garang was in a Ugandan government helicopter flying back to south Sudan after meeting Uganda's president, Yoweri Museveni, when it probably ran out of fuel while looking for an emergency landing spot in bad weather. But until an official investigation definitively rules out foul play, some will suspect he was killed by any one of his numerous enemies. The UN has offered to help any inquiry. President George Bush has sent two envoys, including his top State Department official for Africa, to help keep the peace process on track.

Still, riots erupted in north and south after the news of Mr Garang's death. Many of the millions of southerners who live in dreadful conditions on the fringes of Khartoum, waiting to return to their homeland amid bitter distrust of the national government, came angrily into the streets. There and in several towns in the south, where riots also broke out, at least 130 people were reported dead after three days of violence.

The roots of the conflict between north and south go back to independence from Britain and Egypt in 1956. The mainly Christian, African south argued that it had little in common with the Muslim, mainly Arab north, and petitioned to secede. That was rejected, so a war for independence started. Mr Garang took over the leadership of the struggle in 1983, and eventually brought the central government to the negotiating table by force.

In the process, some 2m people lost their lives, and millions more were displaced. Not all southerners were innocent of brutality. Mr Garang himself was guilty of his share, and the SPLM's armed wing, the Sudan People's Liberation Army (SPLA), earned itself a fairly ugly record. Mr Garang, partly educated in America, was an autocrat by temperament who took personal control of the SPLM. Many argued that this was just as well, as the fractious movement would otherwise have fallen to pieces long ago, riven by ethnic and political jealousies and rivalries.

Indeed, the main fear in the hours after Mr Garang's death was that the SPLM's other commanders would threaten the peace by instantly fighting over the succession. So peacemakers were relieved that within a couple of days the SPLM had confirmed Mr Garang's deputy, Salva Kiir, as its new leader; he automatically becomes Sudan's first vice-president too. So far, other rivals, such as Riek Machar and James Wani, have kept quiet.

Mr Kiir says his movement remains wedded to the peace agreement, as does President Bashir. But Mr Kiir takes over at a delicate time. A new constitution is still being negotiated for the south. And he will need all his skills to manage the SPLM, which currently has no constitution, since Mr Garang had recently dissolved its leadership council and its quasi-parliament, the National Liberation Council.

Is Mr Kiir up to the task? Like Mr Garang, he is a Dinka, from southern Sudan's largest ethnic group, and is widely respected by southerners as a military commander in the bush. On the other hand, he has taken little part in the negotiations, and his relatively low profile means he may lack the charisma to cajole everyone into line as Mr Garang did. He is also little known to the international donors now risking billions of dollars to try to rebuild Sudan. Everyone involved knows that if he slips up, the hyenas—from within his own ranks, let alone those in Khartoum—are waiting to pounce.

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Nigeria

A troubled but lingering president

Aug 4th 2005 | LAGOS
From The Economist print edition

Despite a constitutional term limit, Olusegun Obasanjo may feel he should stay on

Get article background

AP

Could Double-O make it three in a row?

AT THE time, no doubt, a conference must have seemed sensible. Back in February this year, Nigeria's former military ruler turned civilian president, Olusegun Obasanjo, launched a “national political reform conference”, bringing together elder statesmen, politicians, clerics and activists from all over the country. The aim was to soothe some of the often bloody tensions that have refused to go away since he won elections, first in 1999 and then in 2003, that were marred by serious rigging. Sadly for him and Nigeria, the conference, which has continued sporadically through the summer, has not so far done the trick.

Indeed, it has caused some embarrassment for Mr Obasanjo, when delegates from the oil-producing Niger Delta walked out in June, angry that other delegates, particularly those from the country's Muslim-dominated north, had refused to agree to increase the proportion of oil revenue going to the Delta's state governments. Political tensions are now higher than they have been since 2003, when Mr Obasanjo unveiled an economic reform plan to revamp Nigeria's corruption-prone institutions and boost private investment in Africa's most populous (130m-strong) country.

The Delta abounds with militant groups, often egged on by politicians, making wild threats against the oil industry and siphoning off crude oil to sell in order to buy weapons. Many local people feel they have been cheated out of their oil wealth by greedy federal and state officials. They accuse Mr Obasanjo of presiding over a system still dominated by powermongers who amassed their fortunes during the decades of military rule under northern Muslim elites (of which Mr Obasanjo was a part, despite being a Christian from Nigeria's south-west). Yet on July 24th, the president held a lavish dinner to celebrate the achievements of the conference, calling it “a mission from God” and praising its spirit of “harmony, love and brotherhood”. Needless to say, Delta representatives boycotted the event.

Instead, both militants and state politicians from the Delta will keep demanding change, with the latent threat of violence if they do not get their way. In particular, one state governor, who commands a strong loyalty in the Delta's delegation to the conference, recently resurrected the memory of Isaac Boro, a Delta militant who fought a short insurrection against the government in the 1960s. Today's Delta militants argue that Boro had actually fought for autonomy for the Delta, where many believe he was betrayed and then killed by the Nigerian government, even though he fought for the federal side in the civil war of 1967-70, when Biafra tried to secede.

With such tensions resharpening and many of the most vital reforms still pending, Nigerians have begun to speculate that Mr Obasanjo may feel obliged to push through a constitutional amendment to let him stay on as president beyond 2007, when he is supposed to step down. He repeatedly says he would rather go back to his beloved chicken farm then, but many of his colleagues would relish a few more years in profitable power.

If he does retire on time, the likeliest candidates to succeed him are flawed. His vice-president, Atiku Abubakar, a natural contender, has ties with many of the worst state governors. Ibrahim Babangida, a close friend of Mr Obasanjo, is the former military ruler who annulled the elections of 1993. Mr Obasanjo may prefer a more reform-minded candidate to win the nomination but most other politicians have narrower political bases. Hence the calls, in some quarters, for him to stay on.

The president's big problem is that he is in hock to the politicians who helped get him out of prison in 1998 and promoted him as a presidential candidate when military rule ended the year after. These are the very politicians now forging the strongest alliances, with a view to staying in power for as long as possible.

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India

The struggle for the Hindu soul

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A family squabble, or the beginning of the end for Hindu nationalism?

THE idea that India's Bharatiya Janata Party (BJP) might be in terminal decline seems little short of ludicrous. It is the second-largest party in Parliament and the main opposition to the ruling coalition led by the Congress party. Its election defeat last year was a shock, and it still rules five of India's 28 states. In Atal Behari Vajpayee, prime minister until last year, it has one of the country's most admired politicians. Yet an Indian news magazine last month splashed across its cover the question: “Is the party over?”

It is not alone in asking. The BJP is going through more than a bad patch. Its continuing quarrel with its parent organisation, the Rashtriya Swayamsevak Sangh (RSS), or National Association of Volunteers, calls into question the party's purpose. Is its main aim to win elections or to promote the RSS's ideology of *Hindutva*, (Hindu-ness)? Adherents of the organisation portray *Hindutva* as a demand for equality, in that it would end the special arrangements, such as their own family-law system, enjoyed by India's 150m Muslims. The Muslims fear that *Hindutva*'s aim is to promote Hinduism over Islam.

The RSS is a huge, amorphous organisation, claiming 7m-8m activists. About 4m attend daily *shakhas*—early morning gatherings where, in khaki uniforms, they engage in physical jerks, sports and “ideological discourse”. It runs 22,000 schools, has 45,000 units working in slums and is active in 11,000 of the villages where India's tribal minorities live. Besides the BJP, its “family” includes the Vishwa Hindu Parishad, or World Hindu Council. The VHP's Giriraj Kishore quite unabashedly defines its aim as establishing “a Hindu state and Hindu glory”.

The RSS's row with the BJP centres on Lal Krishna Advani, president of the party and leader of the opposition. Mr Advani upset “family” members on a visit to Pakistan in June. He praised Muhammad Ali Jinnah, the Islamic country's founder, and said he was sad about the destruction, in 1992, of a mosque built on the alleged site of a Hindu temple in Ayodhya.

BJP colleagues insist that this was nothing new. They blame the RSS's furious reaction on its leaders' envy of the popularity of Mr Advani and Mr Vajpayee, who are both RSS graduates. But the RSS accuses the BJP leader of heresy. It believes the partition of India in 1947 on religious lines was a terrible mistake, and that the tragedy is not the demolition of the mosque but the failure, so far, to build a

Hindu temple on top of the rubble.

The oddity is that Mr Advani had always been seen as a *Hindutva* hardliner. He led the campaign that culminated in the sacking of the Ayodhya mosque and ultimately propelled the BJP to power. Its climb was meteoric—from two seats in the 545-member Parliament in 1984, to 182—and a dominant role in the ruling coalition—in 1998. Last year, the number fell to 138. Might the party's crash be as precipitous as its rise?

Mr Advani's remarks in Pakistan seemed part of an effort to prevent a crash by softening the party's image. Although the RSS was outraged, and wanted him to quit at least one of his two posts, he has so far clung on. At 77, he says that he will stay only as long as it takes to groom younger leaders—not that there are many obvious contenders. The BJP's Mukhtar Abbas Naqvi promises a “smooth change of leadership” soon. But Mr Advani's departure will not resolve the underlying tension.

Many in the BJP believe that “with a narrow Hindu-only approach, [the BJP] will never occupy the dominant position in Indian politics that the Congress once enjoyed.” Those words come from a paper written in March by Sudheendra Kulkarni, then an aide to Mr Advani. Most observers outside the Hindu “family” agree with his analysis. They blame the BJP's poor electoral performance last year in part on the bloody anti-Muslim pogrom in 2002 in Gujarat, a BJP-ruled state, and its failure to take action against Narendra Modi, Gujarat's chief minister, whose government was accused of complicity in the violence. The BJP's identification with hardline *Hindutva*, it is argued, cost votes.

However, other party members and RSS leaders argue the exact opposite: that the problem was that, in office, the BJP was not Hindu enough. To forge a governing coalition, it had agreed not to pursue the three big *Hindutva* demands: the building of the Ayodhya temple, a matter it left to the courts; the adoption of a uniform civil law to supplant Muslim family law; and the revocation of the special constitutional status of Kashmir, India's only Muslim-majority state.

The Hindu right argues that it was the failure to deliver results on these demands that alienated the BJP's core voters and demoralised its activists. Prafull Goradia, a former member of Parliament for the Jan Sangh, the BJP's forerunner, calls the notion that moderation is the only way of coming to power “absolute hogwash”. He argues that the RSS should end its reliance on the BJP alone and “license” more Hindu parties. This, he insists, would increase the total Hindu vote.

The RSS has no plans to open up the field. But nor will it allow the BJP a free hand. The BJP's Mr Naqvi says that the party has 30m members, of whom only 4.5m have an RSS background. But this overstates its independence of the RSS. The 4.5m are the ones who do the work. As Ram Madhav, an RSS spokesman, puts it, the BJP is the opposite of a traditional communist party, which might spawn many ideological “front” organisations: in the case of the BJP, it is the political party itself that is the front. The ideological “parent” is making clear who calls the shots.

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India's floods

After the deluge

Aug 4th 2005 | DELHI AND MUMBAI
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A disaster made by man as well as the monsoon

AFP

Far from Fifth Avenue

AS THE rains eased and the waters receded, the recrimination mounted. After their waterlogged nightmare, Mumbai's citizens were angry with their rulers. Not only did many feel that relief efforts after the terrible floods of July 26th had been slow and inadequate. They also realised that years of neglect and poor policy had made their suffering far worse than it needed to have been.

It is true that the rain was almost unprecedented: 944mm (37 inches) fell on parts of the city in one day. Even so, the response to the emergency looked disgraceful. The well-to-do had horror stories of nights marooned in their cars; or of wading home from the office through neck-deep water, dodging life-threatening man-holes. Mahesh Bhatt, a well-known film-director, filed public-interest litigation in protest at the "failure of the government machinery to protect lives and properties".

If things were bad for Mr Bhatt and his friends, think of the half of Mumbai's population who live in slums. Many of them were justly furious that the authorities and politicians—who turn up gladly enough at election time—were so conspicuously absent. One slum-dweller in the district of Thane East reported that eight days after the rain, his building was still flooded and there was no drinking water. He had yet to see a single official. Even when help arrived, it seemed inadequate and callous. Subhash Katke, a factory worker whose home was close to a landslide, saw the bulldozers arrive to clear the rubble, and scoop up a pile of mud with a pair of legs sticking out.

The devastation's toll is still to be counted. Of perhaps 1,000 people known to have died in Maharashtra, the state of which Mumbai is the capital, more than 400 were killed in the city itself—drowned, buried in landslides, or trampled in stampedes. The floods have affected more than 20m people. Estimates of the damage, admittedly plucked out of the air by local chambers of commerce, ranged from 30 billion to 45 billion rupees ($690m-1 billion). Oddly, when the stockmarket was open, its index was daily scaling new heights. In the big picture, a lavish monsoon is good for India's economy, still heavily dependent on agriculture. But some analysts worry that the cost of the disaster may dent this year's overall growth.

Even harder to calculate is the harm inflicted on the city's reputation and on future business. For a week, India's financial capital and biggest commercial centre, source on its own of two-fifths of the government's corporate-tax revenue, had, in effect, an "out-of-order" sign on its doors. The airport was shut for two days; trading on the stock exchange, India's biggest by far, was suspended for a day while government and most private offices shut; mobile-phone connections and land-lines both proved sporadic; and many areas found themselves without electricity for more than a week.

The floods uncovered long-term failures. Not enough had been done to maintain Mumbai's ageing infrastructure, such as storm-drains and sewers. Worse, new building had weakened the city's defences. Large areas of protective mangrove had been razed—in one notorious example, to make way for a golf course. Developers have built on wetlands, clogging natural drainage channels. River banks have been reclaimed and become slums.

Yet this was a city whose leaders boasted of turning it into "India's Shanghai", or even (forgetting the slums, presumably) "India's Manhattan". The heroism with which its people endured the catastrophe showed it remains India's Bombay, for good and ill. It deserves better.

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Japan's economy

Reading the tea leaves

Aug 4th 2005 | TOKYO
From The Economist print edition

Can consumers give the economy the extra push it needs?

THERE are times when following Japan's economy is much like a five-hour traditional tea ceremony. Most of what happens is carefully choreographed; many of the details seem pointless; and although the experience can be enriching, it demands lots of patience. This, though, is not one of those times.

Output is rising. A tighter jobs market is raising hopes that, this time, the recovery could last. A showdown in parliament, expected early next week over a genuinely crucial decision—whether to privatise Japan Post and its huge savings and insurance assets—has even seasoned Japan hands biting their nails. Although all of this could end in disappointment, it is hardly the usual dull routine.

One reason is jobs. The unemployment rate, which peaked at 5.5% in early 2003, fell to 4.2% in June, down from 4.4% in April and May (see chart). That is the lowest jobless rate in seven years, though still well above Japan's historical rate. A more closely watched sign of labour demand has also improved steadily: in June there were 96 real job offers for every 100 applicants, the highest ratio since 1992.

The mix is also encouraging. On August 1st the government announced that permanent employment grew by 1% in June. Following milder gains in the first five months of the year, this confirms that hiring patterns are starting to change. In 2003 and 2004, firms were still replacing permanent workers with part-timers and temporary staff, even as the overall jobless rate was falling. Now that more secure jobs are also on offer, confidence could get the boost it has needed.

If that leads consistently to more consumer spending, it will carry the recovery into a new and more reliable phase. Growing exports and business investment helped start the current recovery, but they cannot keep it going on their own. So far, although wages and spending have risen of late, they have not done so as clearly as the job gains, which naturally tend to come first. The only exciting retail trend this summer has been a boost in sales of men's casual clothing, as salarymen have been told to beat the heat by wearing “cool biz” fashions in the workplace.

Confidence will also get a boost whenever property prices finally turn. In Tokyo, at least, that appears to be happening. Land prices in the capital rose for the first time in 13 years, according to figures released on August 1st. Other big cities, such as Osaka and Nagoya, also show signs of nearing the bottom.

As Japan has shown before, there is many a slip 'twixt cup and lip. Better job and property markets merely hint that consumers could become more confident before long, not that they already are. But Toshihiko Fukui, the central bank governor, is upbeat. He told parliament this week that consumer prices could at last stop falling by late this year or early next. He also reassured investors that the central bank will not forestall a recovery by tightening monetary policy too soon.

At the moment, a more unsettling policy risk is the battle over Japan Post's privatisation, on which the upper house was planning to vote on August 8th. The prime minister, Junichiro Koizumi, hopes that privatisation will free up Japan Post's ¥331 trillion ($3 trillion) in financial assets. That is a long-term issue, but the outcome of the vote matters now because a defeat might damage or even bring down Mr Koizumi's government, and bring much political uncertainty. Political risk, after all, has never been investors' cup of tea.

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The Philippines

In for a long haul

Aug 4th 2005 | MANILA
From The Economist print edition

President Arroyo is surviving, but is weakened

Get article background

Reuters

Got it taped, but not nailed down

GOOD news for those who were struggling to keep track of the various scandals dogging Gloria Arroyo, the president of the Philippines: the various charges are all beginning to blend into one. For months now, the president's detractors have been producing witnesses to claim either that she rigged the election that returned her to office last year, or that her family was receiving pay-offs from illegal gambling kingpins. Now they have found a former member of her staff who says he can corroborate both allegations. The latest revelation still does not look likely to precipitate Mrs Arroyo's downfall. But the endless politicking is starting to take a toll on her policymaking.

At a recent Senate hearing, Michaelangelo Zuce, a former aide to one of Mrs Arroyo's political advisers, said that he had seen a certain Lilia Pineda bribe election officials in the president's presence, with money earned from *jueteng*, a popular but illegal form of lottery. Mrs Pineda sits on the council of her and Mrs Arroyo's home province, Pampanga. Her husband, Rodolfo Pineda, has often been accused—but never convicted—of running a *jueteng* racket. Mrs Arroyo, the Pinedas, and four of the five election commissioners all deny the latest accusations and dismiss Mr Zuce as a minor functionary with delusions of grandeur and debts to pay.

But Mr Zuce is also the nephew of Virgilio Garcillano, the remaining election commissioner, with whom Mrs Arroyo purportedly conspired to rig last year's election. His testimony marks the first time anyone has directly linked the president, rather than members of her family, to "*jueteng* payola", as the local press describes it. Moreover, his story dovetails with a series of recordings in which a man said to be Mr Garcillano speaks to several people, including a woman said to be Mrs Arroyo, about ballot tampering. Indeed, Mr Zuce features on the tapes himself. Mr Garcillano, meanwhile, disappeared when the tapes first surfaced in June.

None of this, however, seems to be making much of an impression on the House of Representatives, which is currently considering an impeachment motion against Mrs Arroyo, but is dominated by her allies. They have buried the motion in the justice committee, which has up to five months to mull it over. Only 42 representatives have signed it so far, a long way short of the 79 required to initiate a trial in the Senate. One of those who signed says that supporters of the president offered him cash and other incentives to withdraw his signature.

The president, while keeping mum about the allegations against her, has identified an overhaul of the constitution as a solution to the Philippines' woes. She made a call for "cha-cha", or charter change, the centrepiece of her annual State of the Nation Address to Congress last month. But the proposal looks suspiciously like a delaying tactic, since the Senate, a more independent-minded body than the House, is all but certain to block it.

Meanwhile, Mrs Arroyo seems to be taking a more populist approach to the Philippines' dire financial straits. She instructed her minister of energy to keep rates down, despite a persistent deficit at the state-owned power firm. The new head of the tax-collection agency (the previous one quit in protest at the president's conduct) has signalled a loosening of tough measures adopted last year to catch evaders. Tax collection, which had been exceeding targets in a first real sign of economic hope for the country, has started to fall short. The ratings agencies point to a possible downgrade if the

government's finances do not improve. If the political crisis drags on much longer, it might eventually provoke a fiscal one.

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Uzbekistan and America

Evicted

Aug 4th 2005 | ALMATY
From The Economist print edition

America loses an airbase. But it has plenty more

THE government of Uzbekistan has given America 180 days to vacate its Karshi-Khanabad airbase, which has been at the heart of American military operations into Afghanistan from Central Asia. The eviction notice was delivered on July 29th to America's embassy in the Uzbek capital, Tashkent, seemingly in retaliation for a UN airlift to Romania that day of 439 Uzbek refugees from Kirgizstan, to which they had fled after a massacre in the eastern city of Andijan in May. America was closely involved in the airlift.

The decision by the Uzbek government marks a new low point in already frosty Uzbek-American relations, but should not have been unexpected. After the September 2001 attacks on New York and Washington, Uzbekistan's authoritarian president, Islam Karimov, was quick to join the American-led anti-terror coalition. Within weeks, American troops were operating out of K-2, as Karshi-Khanabad is known. This was a first for a former Soviet republic, and a serious slap in the face for Russia. A second American-controlled base was opened later at Manas airport in the Kirgiz capital, Bishkek (see map).

This tilt to America suited Mr Karimov, who has liked to keep his distance from Moscow, quite well at the time. Besides overthrowing the Taliban regime in Afghanistan, the coalition helped to crush the Islamic Movement of Uzbekistan (IMU), an Afghan-based terrorist organisation that had sought to topple his government. Being a staunch ally also earned Mr Karimov plenty of praise from senior American officials. A prodigious number of congressmen visited Tashkent, especially in 2002, to express their gratitude in person. His abominable human-rights record was generally ignored.

But things turned sour with the “colour” revolutions in Georgia (2003), Ukraine (2004-05) and Kirgizstan (2005), where the old leaders were ousted by largely peaceful demonstrators and replaced by the opposition. Under threat, Mr Karimov blamed America rather than his own failed policies and widespread corruption for discontent at home.

When America called for an international probe of May's Andijan massacre, in which Uzbek police killed perhaps 1,000 unarmed demonstrators, Mr Karimov responded by banning night flights at K-2. In early July, the Shanghai Co-operation Organisation (SCO), comprising Russia, China, Kazakhstan, Kirgizstan, Tajikistan and Uzbekistan, demanded a deadline for the withdrawal of American troops from Central Asia.

To shore up support, Donald Rumsfeld, America's defence secretary, rushed to the region last week and

received assurances that America's base in Kirgizstan was safe. Indeed, Kirgizstan may now come out the winner from the K-2 closure, if it is able to resist pressure from the rest of the SCO to follow the Uzbek example. Azerbaijan may also offer America a replacement base. And, of course, America has plenty of bases in Afghanistan. So it might have been cleverer to have pulled out of Uzbekistan before being pushed.

Whether Mr Karimov will also be a winner is yet to be seen. His tilt back towards Russia and China—which has wooed him with energy deals—is unpopular with the Uzbek elite. And analysts in the region predict that the Andijan events were just a start, with more protests, and refugees, to come.

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Australia

Goodbye, for now

Aug 4th 2005 | SYDNEY
From The Economist print edition

What next for Labor's star performer?

Get article background

AFP

The durable Bob Carr

HAVING insisted he would fight the next state election, due in 2007, Bob Carr surprised everyone when he resigned on July 27th, after ten years as premier of New South Wales (NSW). His successor, whom the Labor Party installed on August 2nd, was another surprise. At 44, Morris Iemma is a relative unknown who has been thrust into perhaps Australia's toughest political job.

Once Australia's economic powerhouse, revolving around booming Sydney, NSW is now growing more slowly than most of the other five states. Mr Carr's high point was the successful Sydney Olympic Games in 2000. Since then, his government has grappled with a string of crises, partly of its own making.

Sydney's publicly owned transport system is suffering from a lack of investment. A drought has had the city on water restrictions for at least a year. Mr Carr's proposed answer was an energy-guzzling desalination plant to be built on Botany Bay, already home to an oil refinery and the city's airport. It did not go down well with cynical Sydneysiders. His government's imposition last year of a 2.25% tax on the sale of properties their owners had bought as investments impressed the property-mad city even less.

With an eye on his neighbouring state's wobbles, Peter Beattie, the Labor premier of Queensland, launched a campaign in July to woo business to the “sunshine state”, whose population and economy are growing faster than those in NSW, but whose costs of doing business are much lower.

With all this, there was a sense that Mr Carr, an unashamed intellectual who liked listening to classical music while travelling between appointments, had run out of political puff. Stressing his origins as the suburban son of Italian immigrants, the new premier set out to differentiate himself. “I prefer football to opera,” Mr Iemma declared. His first decision was to abolish the tax on investment-property sales. This will be popular, but it may also re-ignite Sydney's overheated property market.

For Mr Carr, 57, there may still be political life beyond NSW. Although his ratings had crashed in his own state, a poll on August 2nd showed him the most popular figure to take over leadership of the federal Labor Party in Canberra, whose fortunes, after almost a decade in opposition, remain dim. Unlike its current leader, Kim Beazley, he is a proven election-winner.

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China bashing

Giving China a bloody nose

Aug 4th 2005 | HONG KONG AND NEW YORK
From The Economist print edition

By sabotaging a Chinese bid, America has damaged its own interests

WHAT started out as a firecracker—China's biggest, boldest foreign takeover attempt, and a contested one to boot—this week fizzled out as a damp squib. On August 2nd, the China National Offshore Oil Corporation (CNOOC), a huge, partially state-owned firm, meekly withdrew its $18.5 billion bid for California's Unocal, scared off by what it calls “unprecedented political opposition” on Capitol Hill. On August 10th Unocal shareholders are now almost certain to accept a lower $17.6 billion offer from a domestic rival, Chevron.

CNOOC emerges from this episode with question marks over its credibility. It bears no fault for the fact that it became a lightning rod for all the issues that now enrage American politicians about China—from its “undervalued” currency and trade surplus with America to its supposed destruction of American jobs and poor human-rights record. It can fairly cast itself as a victim and turn to hunting other, less costly and politically sensitive, oil and gas assets. Relieved investors reacted to the news by sending CNOOC's shares higher.

Even so, CNOOC made some costly tactical errors and lost the lobbying battle in Congress, despite hiring sophisticated advisers. It could have quickly arranged to sell on Unocal's American assets (some 30% of its turnover) to counter claims that the deal threatened American “energy security”. After all, CNOOC was mostly after Unocal's Asian gas reserves.

More critically, having dithered initially—it had the chance to buy Unocal in April, before Chevron entered the fray—CNOOC might have helped its cause by raising its bid by another $500m or so late last month to counter an increased offer from Chevron. That would have maintained a 10% or so price differential in its favour, probably enough to compensate Unocal's shareholders for the risk of the bid being blocked by politicians and thereby increasing its chances of winning the endorsement of the Unocal board. CNOOC now concedes that “life might have been very different” if it had gone for a killer bid, but says that it decided not to do so in the interests of its own shareholders.

China crisis?

While CNOOC's bid is the most high-profile failure, it is only the latest in a string of misses by Chinese

firms trying to buy overseas. Last month white goods group Haier pulled out of its quest to acquire America's Maytag after a bigger American rival, Whirlpool, countered. China Mobile was outbid for Pakistan Telecom by a competitor from the United Arab Emirates. And China Minmetals failed in its $7 billion offer for Canada's Noranda. Forecasts that Chinese firms are about to buy up the world, the stuff of headlines only weeks ago, now look as naïve as the firms and their inexperienced bosses themselves.

The most worrying aspect of the CNOOC episode, however, is what it says about America. The anti-China hysteria in Washington, DC, the cowardly silence of the pro-China business lobby and the blatant disregard for fair play and open markets is deeply disturbing. A second-rank oil firm such as Unocal is not worth such a sacrifice of principles. Blocking CNOOC has not meaningfully increased America's energy security. But it may have damaged American business interests, in China and elsewhere. How could America now credibly complain about, say, French attempts to prevent PepsiCo taking over Danone? Beijing will no doubt use this incident to deflect American pressure to pursue reform in other areas. American politicians, so fond of seizing the moral high ground, have ceded it to, of all people, the Chinese.

It seems unlikely that CNOOC will now sulk at home just because its plan to buy Unocal has been thwarted. It has significant unused spending power. While a bid for another big American firm would be daft, there are other options. People close to CNOOC say that it has its eye on Woodside, an Australian firm with desirable gas and oil assets. Such a deal might encounter nationalist resistance in Australia too, but it would be a good fit given CNOOC's need for lots of liquefied natural gas.

If CNOOC does buy a small to middling independent energy firm, it would merely be doing what plenty of western rivals have done of late: gobbling up oil and gas assets in a desperate bid to replenish reserves. Some $63 billion in mergers and acquisitions have been announced already in the oil and gas business this year, nearly as much as in all of 2004.

But one danger is that, feeling shunned by America and nervous of a similar reaction elsewhere, the Chinese may decide to vigorously pursue less savoury options for getting oil and gas. Unlike America and Europe, China does not preach about human rights and democracy to thuggish dictators. On the contrary, China has happily struck deals with countries, such as Myanmar and Sudan, which face American sanctions or international disapproval. It is also rumoured that China has offered arms and other sensitive defence technology in return for oil and gas rights in certain countries, a trade that may seem even more attractive now that America has blocked open-market purchases.

But if China does pursue oil and gas through such “oil diplomacy”, the Western-educated, Wall Street-minded men running CNOOC are unlikely to be in the vanguard. A few weeks ago, the government folded the assets of the China National Petroleum Corporation (CNPC) and its listed affiliate, PetroChina, into a new, as yet unnamed firm. This new entity's express purpose is to be a “platform for international business development” and to “establish significant overseas operations.” A glance at the forays overseas so far by Chinese energy companies reveals that CNPC/PetroChina is far and away the leader in both the number of deals done and in the value of those deals. *Petroleum Intelligence Weekly*, a trade journal, puts it well: this new company “could become the acquisition vehicle to watch”.

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Trainers, sneakers and sports shoes

Just doing it

Aug 4th 2005
From The Economist print edition

Adidas buys Reebok to beat Nike

EPA

One of these days these boots are gonna walk all over you

IN 1997, Adidas stumbled in its deal-making, when it squandered $1.4 billion on Salomon, a French maker of ski- and golf-equipment. In May, it sold Salomon for $625m. Yet the German maker of sports shoes does not give up easily. On August 3rd, it said it will buy Reebok, an American rival, for €3.1 billion ($3.8 billion). If all goes to plan, this joining of the industry's numbers two and three will enable them to mount a serious challenge to the now undisputed leader, Nike.

Now with 35% of the market, Nike has dominated the industry for years. It is the hippest of sneaker makers, using Michael Jordan, Tiger Woods and other sports celebrities with global appeal to market its brand. With its solid, but more pedestrian, reputation Adidas has won 15% of the market. Reebok, in third place, has long tried (not terribly effectively) to outcool Nike, not least in its trainers for women.

Being bigger should help Adidas in price negotiations with manufacturers in Asia, and in negotiations about shelf space and other sales issues with retailers in America. Reebok's main attraction is its 12% share of the market in America, where it also has deals to supply all the major sports leagues. “They are strong in America, we are strong in Asia and Europe,” says Herbert Hainer, the boss of Adidas.

Yet most analysts are sceptical about the deal. Adidas is buying a firm with lower profit margins, lower returns and a tired image. In February, hoping to attract younger buyers, Reebok launched a marketing campaign (“I am what I am”) using pitches by celebrity entertainers and athletes. One ad, featuring “50 Cent”, a controversial rapper, was pulled in March amid complaints that it glorified gun violence.

The analysts think the price is too high and the synergies too small, especially as the two firms seem reluctant to generate some obvious ones. Mr Hainer says he expects to cut costs by €125m in the next three years by sharing information technology, synergies in sales and distribution, and cheaper sourcing. Yet the new combined company will continue to run separate headquarters and sales forces, and keep most distribution centres apart. In a successful takeover, one plus one should make three, but in this case one plus one makes two and maybe a bit, says Gavin Finlayson of Commerzbank.

The takeover should also make Adidas less vulnerable to a possible appreciation of the American dollar or, more likely, of China's yuan. In recent years, Adidas has benefited greatly from the strength of the euro—selling goods mainly inside the euro zone, while subcontracting most of its manufacturing to China and Vietnam.

As for Adidas becoming the industry leader, Nike is unlikely to be quaking in its Air Jordans. Size has helped, says Margaret Mager of Goldman Sachs, because Nike has used it smartly, concentrating its vast resources behind a single brand.

Nike is unlikely to launch a rival bid for Reebok because of likely antitrust objections from regulators in America. But it could be tempted to buy Puma, another German rival. Both Adidas and Puma were set up by the Dassler family. Adidas takes its name from Adolf, or “Adi”, Dassler, whose brother, Rudolf, founded Puma. Both are based in Herzogenaurach, a small town in southern Germany. And both may soon have an American partner.

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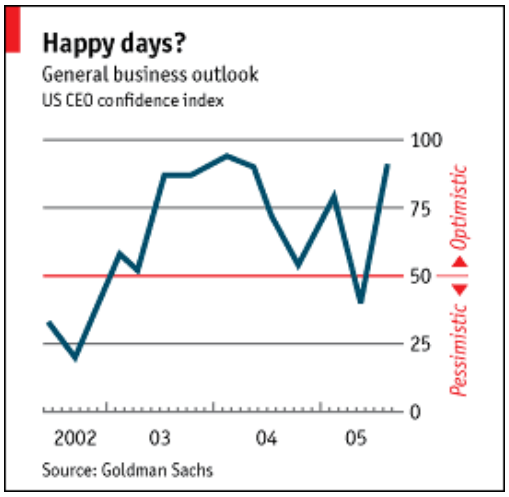
American business

Confident bosses

Aug 4th 2005 | NEW YORK
From The Economist print edition

But how long will their good mood last?



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CONFUSED about the outlook for American business? Then count yourself in good company. America's bosses are fickle, too, according to the "CEO confidence index" produced quarterly by Goldman Sachs, using feedback from its clients. In May the investment bank found that confidence among American bosses was at its lowest since 2002, hitting 40 on a scale of 0-100, with 0 as total despair. This week (see chart) it was 91—denoting "roaring" optimism, says Goldman.

Just as the executives were perking up, some on Wall Street were winding down. On July 29th Merrill Lynch cut its forecast for profit growth next year from 5.6% to just 2% among companies in the S&P 500 index, well below a market consensus of 11%. Merrill is cautious for this year too: the investment bank expects 7% profit growth, against a consensus of 13%. It says the market has been "ignoring the substantial risks" ahead from higher interest rates and high energy prices. Richard Bernstein, its strategist, adds that firms have made optimism an easy option by getting more skilful, perhaps even too skilful, at investor relations, so that bad surprises have almost disappeared from the earnings season.

There is still plenty of good news coming in. America's GDP grew at an annual rate of 3.4% in the second quarter, according to figures released last week, continuing an impressively long run of growth. Consumer spending was up in June after a flat May. Bank lending to industry, probably for capital investment, is growing at its fastest rate since 1998. American carmakers have reclaimed market share thanks to fierce discounting. Doug Duncan, boss of FedEx Freight, a leader in shipping goods for American industry, says that from where he sits, the economy looks "strong across the board and across the country".

Corporate profits tell much the same story. Firms in the S&P 500 have now reported 13 consecutive quarters of double-digit profit growth, equalling the all-time record set in 1992-95. Profit growth is also strong outside the S&P 500.

This week Comcast, America's biggest cable-TV firm, reported second-quarter profits up by 64%; Expedia, an online travel agency, reported profits up by 51%; Martin Marietta, a big producer of construction aggregates, reported profits up by 38%.

Although profit growth for the S&P 500 has stayed in double figures, it has slowed from 63% in the second quarter of 2004 to 11% in the second quarter of 2005. Much of the strongest growth this year has come from the energy industry, thanks to higher prices that translate into higher costs for many other firms. Add the rising trend of interest rates, and the surely unsustainable level of some house prices, and it is easy to see why the “roaring” optimism in the executive suite may prove fragile. The past three years have been good. The next three could be good, too. But if Goldman's index is going to spike again, it has only one way to go.

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Family businesses

The sadness of Rupert Murdoch

Aug 4th 2005
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As another child quits the family firm, is the Murdoch business dynasty ending?

THE patriarch's plan to transfer the management of News Corporation to his children is going very badly. On July 29th, Rupert Murdoch's eldest son, Lachlan, suddenly resigned from his executive roles at the company. As if bidding farewell to his father, he said in a statement: "I would like especially to thank my father for all he has taught me in business and in life." Mr Murdoch said he was "particularly saddened" by his son's decision.

Lachlan, aged 33, will stay on News Corp's board, and advise the company. He had personal reasons to leave: he and his wife prefer Sydney to New York, and will move back. But there were troubles in the firm, too. Being deputy chief operating officer sounded important, but he was said to be frustrated that he had little say in the running of the businesses he oversaw—the group's American TV stations, its publishing business, Harper Collins, and its Australian arm. He was closely involved in day-to-day operations only as publisher of the *New York Post*. Most power rested with his father and Peter Chernin, the president and chief operating officer.

Executives at News Corp also say that Lachlan was not as obsessively interested in running the businesses as his father would have liked. According to one person close to the company, some senior people complained to the boss that his son was not particularly co-operative. He did not get on well with Mr Chernin. Mr Murdoch senior is said to have made cutting remarks about Lachlan's performance in front of other executives.

Lachlan's responsibilities are now expected to pass to Mr Chernin, and Mr Murdoch will return to being publisher of the *New York Post*. More businesses may come under the oversight of Roger Ailes, chief executive of Fox News.

Lachlan is not the only one of Mr Murdoch's children to leave in a hurry. In 2000, Elisabeth Murdoch, the second of his four adult children, suddenly quit BSkyB, a publicly-listed British satellite-television firm controlled by her father, to his surprise and dismay. Ms Murdoch was then regarded as a potential successor.

Now the only one of the children left at News Corp is James Murdoch, who recently moved from its Asian TV business to become chief executive of BSkyB. So far he is impressing investors, some of whom were sceptical at first. "As long as he is surrounded by the right people, James Murdoch has the potential to be a world-class media CEO," says Murdo Murchison, a fund manager at Franklin Templeton. At BSkyB, James is at arm's length from News Corp, and he answers not only to his father but also to other shareholders. But it is not certain that he wants to manage his father's large and hard-to-handle collection of media assets. "These are not easy, pleasurable baubles to take on," says a banker close to the family.

The uncertainty of succession at News Corp, some people believe, is part of the reason why John Malone, boss of Liberty Media, decided to buy more voting shares in the company last year. By doing so he may have been trying to protect his large non-voting investment in the company by gaining more say over who takes over from Mr Murdoch, who is 74.

The current plan is for Mr Chernin to succeed until one of the children is ready. But Mr Chernin is likely to leave the firm in the next few years. The picture is further complicated by the fact that Mr Murdoch has two young daughters from his third marriage, to Wendi Deng (another potential successor?). He reportedly wants to change the family's financial arrangements to give his youngest two children an equal share of his assets, which are held in trusts. Tension within the family is said to have been another factor in Lachlan's departure. In a further statement last weekend, Mr Murdoch said that he looks forward to the day when his son wants to return to the firm.

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Pearson

Mystery man

Aug 4th 2005
From The Economist print edition

Some shareholders want the new chairman to shake up Pearson

Pearson

What is Mr Moreno thinking?

WHEN Pearson named Glen Moreno as its new chairman on July 29th, the main reaction in the City of London was to ask: who is he? Compared with other rumoured candidates for the job, such as Chris Gibson-Smith, chairman of the London Stock Exchange, he was a surprisingly low-profile choice. Mr Moreno, a 62-year-old American, once ran Fidelity International, a fund manager, and is now on the board of Man Group, a hedge-fund firm.

Mr Moreno joins Pearson—an education and media conglomerate—at a time of lively debate over its strategy. Some analysts are questioning the logic behind its current mix of businesses, which range from school and university textbooks to consumer-book publishing to newspapers (including, via the *Financial Times*, a 50% stake in *The Economist*). In the past three years Pearson's shares have underperformed against the FTSE All Share index by 15%. There is speculation about whether the appointment of Mr Moreno, a financier, is an indication that there will be asset sales as part of an aggressive campaign to move Pearson's becalmed share price.

One large shareholder in the firm believes that it was “inappropriate” that Marjorie Scardino, Pearson's chief executive (and a former chief executive of *The Economist*) was on the nomination committee that picked the new chairman. This week, the shareholder will talk to Mr Moreno to find out why he took the job. “If he just wants to enjoy a trophy chairmanship in the twilight of his career and is not bringing any new ideas to the table, we'll be disappointed,” says the investor.

Mrs Scardino has been under pressure from her board to deliver higher profits in 2005, after a dismal 2004 which saw the *Financial Times* lose $17m, no growth in spending by American schools (which account for nearly one-third of Pearson's sales) and a 24% fall in operating profits in its Penguin publishing arm. That pressure has eased recently, thanks to unexpectedly good results in the first half of this year because of higher educational spending. Stronger state finances and the No Child Left Behind Act mean that American high schools will buy many more books and other services from Pearson in the coming years. The firm now expects this business to increase sales at double-digit rates.

There has also been speculation that, with a new chairman, Pearson would try to find a new owner for the *Financial Times*—though Mrs Scardino once said that it would be sold “over my dead body”. The paper has been losing money for the past two and a half years. Some investors argue that it does not fit with Pearson's educational business. But according to one insider, Pearson is more likely to consider selling Penguin, which is having a rough time with mass-market books in America. At least one private-equity firm has recently considered bidding for Penguin.

But Pearson's board is certainly worried about the performance of the *Financial Times*—even though it is now expected to break even this year, thanks to cost cutting and a pick-up in advertising. The paper's strategy for years has been to expand globally, and it now has roughly the same circulation in both America and continental Europe as in Britain—between 130,000 and 140,000 copies per issue on average during 2004. But its circulation has fallen alarmingly in Britain. Since January 2000, its overall circulation in Britain has fallen by 31%, and its fully-paid circulation (excluding copies sold at a discount) by 40%. Britain has traditionally been far more profitable for the *Financial Times* than overseas, where it attracts less advertising. “No business can prosper if it is not doing well in its home market, and there has got to be concern at the decline in the UK,” says one person close to Pearson's board.

There are many possible reasons why the paper has lost ground in Britain—job losses in the City, the

availability of free news and equity prices on the internet and, some say, too much attention to business readers overseas. To be sure, most British papers are also losing circulation. In response, says Andrew Gowers, its editor, the paper has refocused on Britain in the past 18 months, giving more space to small firms and to London's stockmarket. For advertisers, he says, readership matters as much as circulation—and this has held up quite well. In surveys of wealthy readers' favourite papers, the *Financial Times* consistently comes at or near the top. The paper has spent lavishly on its website, which has 78,000 subscribers, about half of them in Britain. Including them, fully-paid circulation for the paper at home has fallen by 16% since 2000.

Rival media firms—such as Rupert Murdoch's News Corporation—are said to be willing to pay top dollar to get their hands on the *Financial Times*. Thinking of that potential windfall, some analysts argue that Pearson should sell. Besides, the paper is “a cyclical beast inside an otherwise stable entity and that volatility skews its results from time to time,” says Paul Sullivan of Merrill Lynch. Other investors are not so worried: they care more about growth and margins in its educational publishing businesses. For now, thanks to high schools across America, Mrs Scardino and her new chairman have breathing-space.

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Television in Italy

Struggling for air-time

Aug 4th 2005 | ROME
From The Economist print edition

The obstacles to market entry

THOSE doing business in the Eternal City need patience, as Francesco Di Stefano has learnt at first hand. On July 28th, his TV company, Europa 7, celebrated the sixth anniversary of winning a national broadcasting licence. But it is still waiting for the authorities to allocate the frequencies that will let it transmit programmes nationwide.

The firm's headquarters in Rome tick over with a skeleton staff that produces a few local programmes. Yet, claims Europa 7, one of the five studios at its television centre—19,000 square feet (1,800 square metres) of floor, a height of 16m and acoustics to rival a recording studio—is among the largest and most technologically advanced in the world.

Europa 7 has had to contend with official obstructionism and other broadcasters, not least Mediaset, a private TV company controlled by Silvio Berlusconi, Italy's prime minister, which has three national channels and some 45% of the market. Italy's constitutional court ruled in 2002 that Mediaset's Retequattro channel should cease terrestrial broadcasting by the end of 2003. Just before that deadline, Mr Berlusconi signed a decree that allowed Retequattro to continue—on frequencies that Mr Di Stefano says ought to have been assigned to Europa 7. New legislation subsequently secured Retequattro's position.

Television broadcasting in Italy has long been fraught with legislative and judicial imbroglios. But Mr Di Stefano's persistence and legal efforts have now been rewarded, to some extent. Last month, the council of state, Italy's highest court for disputes involving public administration, ruled that the case should be referred to the European Court of Justice (ECJ).

Mr Di Stefano says that this judgment sends a message of hope to other businessmen in Italy: “We were right to believe that law and justice eventually prevail.” If the ECJ finds in his favour, the case will return to Rome where the question of damages will be settled. Mr Di Stefano will need more patience. With likely damages from the state of almost €900m ($1.1 billion) if Europa 7 gets its frequencies, and €3 billion if not, the wait could be worthwhile. Whether that would encourage Italian legislators to do a better job in future remains to be seen.

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Managing German firms

Germany's American revolutionaries

Aug 4th 2005 | FRANKFURT
From The Economist print edition

Can bosses honed in America revive German business?

DIETER ZETSCHE's improbable walrus moustache won him sympathy in the works canteen of Chrysler, the then-troubled Detroit carmaker of which he became boss in November 2000. American car-workers learned to respect their unusual German boss, who queued with them for food and introduced himself as Dieter. Four years later, after axing 26,000 jobs, Mr Zetsche had turned around the American subsidiary of the DaimlerChrysler group. He was tipped as one of two candidates for the top job whenever Jürgen Schrempp, the veteran chief executive back in Germany, should resign.

When that moment came, unexpectedly, last week, DaimlerChrysler's supervisory board announced that Mr Zetsche would replace Mr Schrempp from the end of this year. The other candidate, Eckhard Cordes, currently head of the Mercedes division, handed in his notice.

For the third time this year a German executive who won his spurs in America has been given one of the top corporate jobs back home. In January, Klaus Kleinfeld, formerly head of the American arm of Siemens, became chief executive of the Munich-based electronics and engineering giant. In May, Wolfgang Bernhard, once Mr Zetsche's chief operating officer in America, took charge of Volkswagen cars, the main division of the Volkswagen Group (VW). Mr Bernhard is regarded as the likeliest successor to Bernd Pischetsrieder, currently under fire as the scandal-hit group's chief executive.

Investors certainly like the idea of managers honed in America trying to inject some life into their moribund big firms. News of Mr Zetsche's appointment was greeted with an instant 10% jump in DaimlerChrysler's share price. Last October, news of Mr Bernhard's likely appointment lifted VW's shares by 8%. Indeed, investors seem grateful for any sign of better management of German businesses, with or without an American flavour. This year, share prices also jumped on the departures of Werner Seifert, the boss of Deutsche Börse; of Peter Hartz, the personnel director of VW, following a scandal over payments to workers representatives on its supervisory board; and of Andreas von Zitzewitz from Infineon. But if the new broom happens to be fashioned in America, so much the better.

Confidence in German managers, particularly among their own workers, is now probably the lowest in Europe. In a recent survey of eight European countries, over 60% of German employees asked had no faith in their bosses, compared with 50% or less in countries such as France and Sweden, reports Stepstone, a job agency. For more than half of those unhappy Germans their boss fell into the category of “catastrophic—there seem to be no management skills at all”.

Investors certainly like the idea of managers honed in America trying to inject some life into their moribund big firms

Of the three returning American-honed executives, Mr Kleinfeld may have the easiest task. Although Siemens's performance has been unspectacular (especially compared with its American counterpart, GE), it is not in crisis. In America, Mr Kleinfeld turned a loss of $550m when he arrived in 2001 into a profit of $800m a year later, after cutting 10,000 jobs. In Germany, he started cutting jobs on his first day at work in January. He has demonstrated an American enthusiasm for corporate focus, selling off the ill-fitting mobile-phone division, and plans to cut costs in business services and logistics.

Mr Zetsche may find the going harder, as he grapples with serious quality issues at Mercedes and the resulting damage to its brand, as well as facing a tough decision on whether to close the struggling Smart car division. In America, with his then side-kick Mr Bernhard, he showed he had backbone, closing six Chrysler plants, reducing production costs and disciplining suppliers as well as making massive job cuts despite union opposition.

That will probably be much harder in Germany, with its cherished tradition of consensual decision-making between bosses and workers, and of worker representatives on supervisory boards. To

see what he is up against, he need only consider the final days of Mr Bernhard at Chrysler. Last year, after Mr Bernhard had publicly described Mercedes (which he was about to run) as a “restructuring case”, Mr Schrempp had him fired, unhappy with talk of “blood on the floor”. Now at VW, a company hitherto even more sensitive to the wishes of its workers, Mr Bernhard is being very careful. He wants to cut costs at Volkswagen by €5 billion ($6 billion) a year by 2008, but says he will try to do so without compulsory redundancies.

Too cosy by half

Even with an American attitude, Germany's tangled corporate governance may prove an insuperable barrier to the radical change that the country needs. Cosiness between current and former executives, and between executives and union leaders, has been a recipe for paralysis, and even (judging by several recent scandals) corruption. A study by Ernst & Young, an accounting firm, estimates that the loss to the German economy from corruption is around €8 billion a year.

Co-determination creates a conflict of interest on the supervisory boards of all big German firms, argues Theodor Baums of Frankfurt University, because half of their members are employee or union representatives. The supervisory board's job is to hire and fire management, while management's job is to control the firm's employees. How can they control employees who are empowered to hire and fire them? At VW, political and union interference has made the problem particularly acute.

Almost as serious a problem is that any new chief executive wishing to make radical changes is likely to have to get his plans past his predecessor, who will typically be chairing the supervisory board and may not be in the least bit keen to see his legacy pulled to pieces. At both Siemens and VW, former chief executives head the supervisory board. At DaimlerChrysler the supervisory board chairman is Hilmar Kopper, a former boss of Deutsche Bank, who, together with Mr Schrempp, has presided over a steady decline in the company's share price since 1998. Deutsche Bank took advantage of DaimlerChrysler's share-price rally following Mr Schrempp's resignation last week by selling a third of its 10% stake. The resignation of Mr Kopper—which a growing number of shareholders are now demanding—might well bring a similar windfall.

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Face value

The compassionate capitalist

Aug 4th 2005
From The Economist print edition

Landov

Sir Ronald Cohen is getting out of private equity and into social investment

PRIVATE-EQUITY people know how to throw a party. In 2002, David Bonderman, founder of Texas Pacific, one of America's leading private-equity firms, marked his 60th birthday with (reportedly) the "most expensive bash in Las Vegas history", treating 300 guests to performances by Robin Williams and the Rolling Stones. Last month, Apax Partners, a leading European private-equity firm, hired the National Gallery in London for a classier do to mark the 60th birthday on August 1st of Sir Ronald Cohen, and the "moving on" (Sir Ronald has no plans to retire) of a man who co-founded the firm in 1972. Some 200 guests were wined, dined and entertained among the Old Masters by the great pianist Alfred Brendel, long a friend of Sir Ronald's.

Mr Bonderman's love of rock and roll is in keeping with the rebellious, iconoclastic, outsiderish past of American private equity, famous in its 1980s growth spurt for borrowing up to the eyeballs to finance hostile takeovers that earned some of Mr Bonderman's peers the label "Barbarians at the Gate". Sir Ronald is altogether more sophisticated and urbane. With less ambition, energy and business acumen, he might well have ended up in an Oxford senior common room. He was perfectly suited to thrive in the more genteel, insiderish early years of European private equity. On both sides of the Atlantic, private-equity firms manage funds that buy big controlling stakes in firms, sometimes taking public firms private. But as the industry grew in Europe in the 1970s and 1980s, American-style high-profile, highly-leveraged buyouts and hostile takeovers were mostly eschewed in favour of smaller buyouts of unwanted bits of conglomerates.

Today, private equity is a single global industry at the heart of the capitalist system, managing far more money than seemed possible in the 1980s (see article). The old differences between America and Europe have vanished as private-equity firms of every nationality fight for the same deals, and the same capital to invest, everywhere. And as the industry has matured, so have its pioneers. This is posing a challenge that few of those pioneers have been as willing to confront: succession planning. Private-equity firms have mostly struggled with succession, says Josh Lerner of Harvard Business School. Lionel Pincus, a founder of Warburg Pincus, lingered so long that when he finally handed over executive responsibility a whole generation of potential leaders had quit. Teddy Forstmann's failure to find a successor means that his firm, Forstmann Little, is unlikely to survive him.

Sir Ronald has been an exception. In the late 1990s, he and Apax's other partners started to discuss how the baton could be handed on to the next generation of leaders in a timely, efficient way that let the departing partners take money out without seriously weakening the firm. They adopted a retirement age ranging from 55 to a mandatory ceiling of 60—against which Sir Ronald has now bumped. Although he remained extremely active at Apax until the end, it seems unlikely that he was ever tempted to exempt himself from the retirement rule.

That would have been out of character, as Sir Ronald has always led by example, says one former Apax partner. Nevertheless, this former partner admits to being surprised at how much autonomy Sir Ronald allowed his successor, Martin Halusa (who became Apax's chief executive, with Sir Ronald as chairman, in January 2004). “He stepped back, let Martin lead, and did not become his shadow,” he says. Yet it remains to be seen if Apax can thrive without Sir Ronald, for all his efforts to leave it in great shape. Its latest fund-raising effort was tougher than expected, although a new €4.3 billion ($5 billion) fund is hardly failure. A new strategy requiring generalists in Apax's leveraged transactions group to specialise in a particular industry has not been greeted with universal enthusiasm within the firm.

Sophisticate at the gate

Sir Ronald is now expected to devote his energy to two causes long close to his heart. One is the Middle East peace process. He was among the Jews thrown out of Egypt in the 1950s. He is chairman of the Portland Trust, which, among other things, is promoting (not without controversy) economic development in Palestine. Sir Ronald believes that economic growth for the Palestinians is crucial if there is to be lasting peace with Israel.

Second, he will build on his earlier efforts to promote “social investment”. Having arrived in Britain as a refugee, he believes that those who succeed in the capitalist system have a duty to give back to those at the bottom, and, indeed, that capitalism may not survive if they don't—a philanthropic creed common in America, but still rare in Britain. He has given over £500,000 ($900,000) of his estimated £70m fortune to Britain's Labour Party, skilfully managing to be close both to prime minister Tony Blair and his probable successor, Gordon Brown, the chancellor of the exchequer. In 2000 Mr Brown put Sir Ronald in charge of a “Social Investment Taskforce” that made various proposals (setting up “community development venture funds”, tax breaks and so forth) to foster private investment in economically-deprived parts of Britain. He is chairman of Bridges Community Ventures, founded in 2002 with £20m of private capital and a matching contribution from the government to invest in small businesses in “under-invested areas”.

In April, Sir Ronald hosted a brainstorming session for financial experts at Oxford's Said Business School to discuss his dream of creating a “diverse and productive social investment marketplace”—put simply, to ensure that capital is far more efficiently generated and allocated to non-profit businesses and “social entrepreneurs” with innovative ideas. He believes that social investment can take off in just as spectacular a way as private equity has done. And if you doubt him, he will remind you that people were just as sceptical back in the 1970s when he talked about the huge potential of private equity.

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Video gaming

Chasing the dream

Aug 4th 2005
From The Economist print edition

As video gaming spreads, the debate about its social impact is intensifying

IS IT a new medium on a par with film and music, a valuable educational tool, a form of harmless fun or a digital menace that turns children into violent zombies? Video gaming is all these things, depending on whom you ask.

Gaming has gone from a minority activity a few years ago to mass entertainment. Video games increasingly resemble films, with photorealistic images, complex plotlines and even famous actors. The next generation of games consoles—which will be launched over the next few months by Microsoft, Sony and Nintendo—will intensify the debate over gaming and its impact on society, as the industry tries to reach out to new customers and its opponents become ever more vocal. Games consoles are the most powerful mass-produced computers in the world and the new machines will offer unprecedented levels of performance. This will, for example, make possible characters with convincing facial expressions, opening the way to games with the emotional charge of films, which could have broader appeal and convince sceptics that gaming has finally come of age as a mainstream form of entertainment. But it will also make depictions of violence even more lifelike, to the dismay of critics.

This summer there has been a huge fuss about the inclusion of hidden sex scenes in “Grand Theft Auto: San Andreas”, a highly popular, but controversial, game in which the player assumes the role of a street gangster. The sex scenes are not a normal part of the game (see above for a typical image). But the offending scenes can be activated using a patch downloaded from the internet. Senator Hillary Clinton and a chorus of other American politicians have called for federal prosecutors to investigate the game and examine whether the industry's system of self-regulation, which applies age ratings to games, is working properly. Mrs Clinton accused video games of “stealing the innocence of our children” and “making the difficult job of being a parent even harder”.

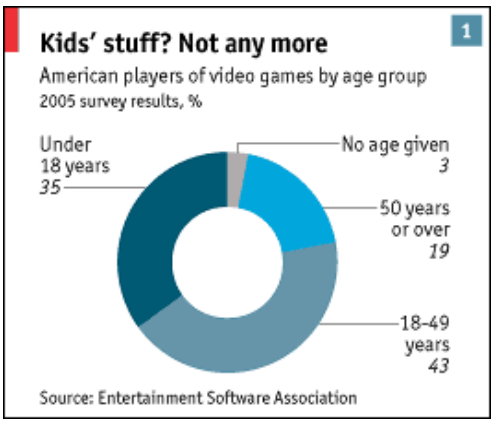
As a result of the furore, “Grand Theft Auto” had its rating in America changed—from “M” for mature (over-17s only) to “AO” for adults only (over-18s)—by the industry's rating board. But since most big retailers refuse to stock “AO” titles, of which very few exist, Rockstar Games, the maker of “Grand Theft Auto”, is producing a new “M”-rated version without the hidden sexual material. This is merely the latest round in a long-running fight. Before the current fuss over “Grand Theft Auto”, politicians and lobby groups were getting worked up over “Narc”, a game that depicts drug-taking, and “25 to Life”, another urban cops-and-robbers game.

Ironically, the “Grand Theft Auto” episode has re-ignited the debate over the impact of video games, just as the industry is preparing to launch its biggest-ever marketing blitz to accompany the introduction

of its new consoles. Amid all the arguments about the minutiae of rating systems, the unlocking of hidden content, and the stealing of children's innocence, however, three important factors are generally overlooked: that attitudes to gaming are marked by a generational divide; that there is no convincing evidence that games make people violent; and that games have great potential in education.

Start with the demographics. Attitudes towards gaming depend to a great extent on age. In America, for example, half of the population plays computer or video games. However most players are under 40—according to Nielsen, a market-research firm, 76% of them—while most critics of gaming are over 40. An entire generation that began gaming as children has kept playing. The average age of American gamers is 30. Most are “digital natives” who grew up surrounded by technology, argues Marc Prensky of games2train, a firm that promotes the educational use of games. He describes older people as “digital immigrants” who, like newcomers anywhere, have had to adapt in various ways to their new digital surroundings.

Just getting by in a foreign land without some grasp of the local language is difficult, says Mr Prensky. Digital immigrants have had to learn to use technologies such as the internet and mobile phones. But relatively few of them have embraced video games. The word “game” itself also confuses matters, since it evokes childish playthings. “What they don't understand, because they've never played them, is that these are complex games, which take 30, 40 or 100 hours to complete,” says Mr Prensky. Games are, in fact, played mainly by young adults. Only a third of gamers are under 18.


1
Kids' stuff? Not any more
American players of video games by age group
2005 survey results, %
Under 18 years 35
No age given 3
50 years or over 19
18-49 years 43
Source: Entertainment Software Association

“It's just a generational divide,” says Gerhard Florin, the European boss of Electronic Arts, the world's biggest games publisher. “It's people not knowing what they are talking about, because they have never played a game, accusing millions of gamers of being zombies or violent.” Digital natives who have played video games since childhood already regard them as a form of entertainment on a par with films and music. Older digital natives now have children of their own and enjoy playing video games with them.

The gaming industry is trying to address the generational divide. It is producing games designed to appeal to non-gamers and encouraging casual gamers (who may occasionally play simple web-based games, or games on mobile phones) to play more. This has led to the development of games with a wider appeal. Some of them replace the usual control pad with novel input devices: microphones for singing games, cameras for dancing and action games, and even drums. In addition, the industry has started to cater more to women, who seem to prefer social simulation games such as “The Sims”, and to older people, who (if they play games at all) often prefer computerised versions of card games and board games. Other promising avenues include portable gaming, mobile gaming and online downloads of simple games. Many people enjoy gaming, but do not necessarily want to commit themselves to an epic quest that will take dozens of hours to complete.

The industry, in short, is doing its best to broaden gaming's appeal, which is of course in its own best interests. For the time being, however, the demographic divide persists, and it does much to explain the polarisation of opinion over gaming and, in particular, worries about violence. It also provides the answer to a question that is often asked about gaming: when will it become a truly mainstream form of entertainment? It already is among the under-40s, but will probably never achieve mainstream status among older people.

But aren't critics right to worry that gaming might make people violent? Hardly a week goes by in which a game is not blamed for inspiring someone to commit a violent crime. After all, say critics, acting out violent behaviour in a game is very different from passively watching it in a film. Yet surveys of studies into games and violence have produced inconclusive results, notes Dmitri Williams, who specialises in studying the social impact of media at the University of Illinois. And, in a paper on the subject published in June in *Communication Monographs*, he notes that such research typically has serious shortcomings.

For example, studies have examined only the short-term effects of gaming. There have been no studies that track the long-term effects on the players themselves. Another problem, says Mr Williams, is that it is meaningless to generalise about “game play” when there are thousands of games in dozens of genres. It is, he notes, equivalent to suggesting that all television programmes, radio shows and movies are the same. Better-designed studies that measure the long-term effects of specific types of games are needed.

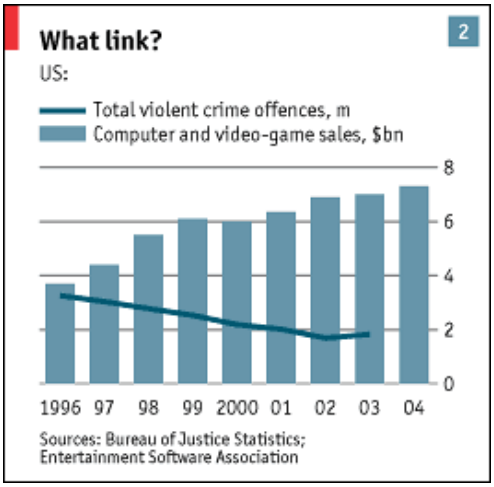
They're beginning to happen. In his paper, Mr Williams describes the first such study, which he carried out with Marko Skoric of the University of Michigan. The study concentrated on a “massively multiplayer online role-playing game” (MMORPG) called “Asheron's Call 2”. This type of game requires the player to roam around a fantasy world and kill monsters to build up attribute points. It is “substantially more violent than the average video game and should have more effect, given the highly repetitive nature of the violence”, the researchers noted.

Two groups of subjects were recruited, none of whom had played MMORPGs before and many of whom had never played video games at all. One group then played the game for a month, for an average of nearly two hours per day. The other group acted as a control. All participants were asked questions about the frequency of aggressive social interactions (such as arguments with their spouses) during the course of the month to test the idea that gaming makes people more aggressive.

Moral choices

Game players, it turned out, were no more aggressive than the control group. Whether the participants had played games before, the number of hours spent gaming, and whether they liked violent movies or not, made no difference. The researchers noted, however, that more research is still needed to assess the impact of other genres, such as shoot-'em-ups or the urban violence of “Grand Theft Auto”. All games are different, and only when more detailed studies have been carried out will it be possible to generalise about the impact of gaming.

But as Steven Johnson, a cultural critic, points out in a recent book, “Everything Bad Is Good for You”, gaming is now so widespread that if it did make people more violent, it ought to be obvious. Instead, he notes, in America violent crime actually fell sharply in the 1990s, just as the use of video and computer games was taking off (see chart 2). Of course, it's possible that crime would have fallen by even more over the period had America not taken up video games; still, video gaming has clearly not turned America into a more violent place than it was.



What's more, plenty of games, far from encouraging degeneracy, are morally complex, subtle and, very possibly, improving. Many now explicitly require players to choose whether to be good or evil, and their choices determine how the game they are playing develops.

In “Black & White”, for example, the player must groom a creature whose behaviour and form reflects his moral choices (get it wrong and the results can be ugly—see the illustration). Several games based on the “Star Wars” movies require players to choose between the light and dark sides of the Force, equivalent to good and evil. Perhaps most striking is the sequence in “Halo 2”, a bestselling shoot-'em-up, in which the player must take the role of an alien. Having previously seen aliens as faceless enemies, notes Paul Jackson of Forrester, a consultancy, “suddenly you are asked to empathise with the enemy's position. It's very interesting. Games are much more complex than the critics realise.”

The move away from linear narratives to more complex games that allow players to make moral choices, argues Mr Prensky, means that games provide an opportunity to discuss moral questions. “These are wonderful examples for us to be discussing with our kids,” he says. Indeed, perhaps the best way to address concerns over the effects of video games is to emphasise their vast potential to educate.

Even games with no educational intent require players to learn a great deal. Games are complex, adaptive and force players to make a huge number of decisions. Gamers must construct hypotheses about the in-game world, learn its rules through trial and error, solve problems and puzzles, develop strategies and get help from other players via the internet when they get stuck. The problem-solving mechanic that underlies most games is like the 90% of an iceberg below the waterline—invisible to non-gamers. But look beneath the violent veneer of “Grand Theft Auto”, and it is really no different from a swords-and-sorcery game. Instead of stealing a crystal and delivering it to a wizard so that he can cure the princess, say, you may have to intercept a consignment of drugs and deliver it to a gang boss so he can ransom a hostage. It is the pleasure of this problem-solving, not the superficial violence which sometimes accompanies it, that can make gaming such a satisfying experience.

Nobody is using “Grand Theft Auto” in schools, of course, since it is intended for adults. But other off-the-shelf games such as “Sim City” or “Rollercoaster Tycoon”, which contain model economies, are used in education. By playing them it is possible to understand how such models work, and to deduce what their biases are. (In “Sim City”, for example, in which the player assumes the role of a city mayor, no amount of spending on health care is ever enough to satisfy patients, and the fastest route to prosperity is to cut taxes.)

Games can be used in many other ways. Tim Rylands, a British teacher in a primary school near Bristol, recently won an award from Becta, a government education agency, for using computer games in the classroom. By projecting the fantasy world of “Myst”, a role-playing game, on to a large screen and prompting his 11-year-old pupils to write descriptions and reactions as he navigates through it, he has achieved striking improvements in their English test scores.

Another area where games are becoming more popular is in corporate training. In “Got Game”, a book published last year by Harvard Business School Press, John Beck and Mitchell Wade, two management consultants, argue that gaming provides excellent training for a career in business. Gamers, they write, are skilled at multi-tasking, good at making decisions and evaluating risks, flexible in the face of change and inclined to treat setbacks as chances to try again. Firms that understand and exploit this, they argue, can gain a competitive advantage.

Pilots have been trained using flight simulators for years, and simulators are now used by soldiers and surgeons too. But gaming can be used to train desk workers as well. Mr Prensky's firm has provided simple quiz games for such firms as IBM and Nokia, to test workers' knowledge of rules and regulations, for example. For Pfizer, a drug company, his firm built a simulation of its drug-development process that was then used to train new recruits. Other examples abound: PricewaterhouseCoopers built an elaborate simulation to teach novice auditors about financial derivatives. Some lawyers are using simulators to warm up for court appearances. Convincing older executives of the merits of using games in training can be tricky, Mr Prensky admits. “But when they have a serious strategic training problem, and realise that their own people are 20-year-olds, more and more are willing to take the leap,” he says.

So games are inherently good, not bad? Actually they are neither, like books, films, the internet, or any other medium. All can be used to depict sex and violence, or to educate and inform. Indeed, the inclusion of violent and sexual content in games is arguably a sign of the maturity of the medium, as games become more like films.

Movies provide one analogy for the future of gaming, which seems destined to become a mainstream medium. Games already come in a variety of genres, and are rated for different age groups, just like movies. But just how far gaming still has to go is illustrated by the persistence of the double standard that applies different rules to games and films. Critics of gaming object to violence in games, even though it is common in movies. They worry about the industry's rating model, even though it is borrowed from the movie industry. They call upon big retailers (such as Wal-Mart) not to sell AO-rated games, but seem not to mind that they sell unrated movies that include far more explicit content.

In June, Senator Charles Schumer held a press conference to draw attention to the M-rated game “25 to

Life", in which players take the role of a policeman or a gangster. "Little Johnny should be learning how to read, not how to kill cops," he declared. True, but little Johnny should not be smoking, drinking alcohol or watching Quentin Tarantino movies either. Just as there are rules to try to keep these things out of little Johnny's hands, there are rules for video games too. Political opportunism is part of the explanation for this double standard: many of gaming's critics in America are Democrats playing to the centre.

Another analogy can be made between games and music—specifically, with the emergence of rock and roll in the 1950s. Like games today, it was a new art form that was condemned for encouraging bad behaviour among young people. Some records were banned from the radio, and others had their lyrics changed. Politicians called for laws banning the sending of offending records by post. But now the post-war generation has grown up, rock and roll is considered to be harmless. Rap music, or gaming, is under attack instead. "There's always this pattern," says Mr Williams of the University of Illinois. "Old stuff is respected, and new stuff is junk." Novels, he points out, were once considered too lowbrow to be studied at university. Eventually the professors who believed this retired. Novels are now regarded as literature. "Once a generation has its perception, it is pretty much set," says Mr Williams. "What happens is that they die."

Like rock and roll in the 1950s, games have been accepted by the young and largely rejected by the old. Once the young are old, and the old are dead, games will be regarded as just another medium and the debate will have moved on. Critics of gaming do not just have the facts against them; they have history against them, too. "Thirty years from now, we'll be arguing about holograms, or something," says Mr Williams.

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Italian finance

Another year, another scandal

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The latest scandals over a contested bank bid show that Italy learned little from Parmalat

LESS than two years ago, the spectacular bankruptcy of Parmalat, a family-controlled Italian dairy group, sent shock waves throughout Italy. It was the biggest scandal in European corporate history, revealing a €14 billion ($17 billion) accounting hole that had grown over a decade of deception. The saga cast regulators, bankers and auditors in a desperately unfavourable light for not spotting the fraud much more quickly than they did.

Europe's Enron offered a chance for the comprehensive reform of Italy's financial regulation that it so badly needs. Yet the growing scandal over the contested bids for Banca Antonveneta by Banca Popolare Italiana (BPI) and ABN Amro, a Dutch bank, shows that this opportunity was instead comprehensively missed.

In the first weeks after the Parmalat scandal erupted, reforms were introduced at surprising speed. Just before Christmas 2003, new insolvency legislation was pushed through, inspired by America's Chapter 11. The government was also keen to improve financial regulation. Giulio Tremonti, the finance minister of the moment, wanted to replace the existing hotchpotch—Italy has four financial regulators other than its powerful central bank, all toothless and understaffed—with one strong super-regulator, an Italian equivalent of Britain's Financial Services Authority (FSA). Mr Tremonti also tried to replace the central bank governor's current job for life with a term limited to seven years.

This provoked the first of a series of clashes between Mr Tremonti and Antonio Fazio, governor of the Bank of Italy. Mr Tremonti criticised Mr Fazio for failing to spot the massive accounting fraud at Parmalat. Mr Fazio countered that the central bank was not responsible for how companies report their finances. Yet it does have an internal database that tracks the debt of the country's almost 800 international and domestic banks. It could have acted on warnings that bankers were financing a house of cards, critics claim.

Mr Fazio gained the upper hand, and Mr Tremonti was forced to quit. His proposal was reduced to a draft law calling for the replacement of Consob, the securities-market watchdog, with an Authority for the Protection of Savings, with various responsibilities and resources pinched from the central bank and the antitrust authority. A limit on the central-bank governor's term remained in the draft law but the law itself is still pending in parliament.

Latest developments in the soap opera that the takeover battle for Antonveneta has become have revived discussion of Mr Tremonti's proposal. After ABN Amro announced in March that it would bid for Antonveneta, BPI raised its small stake in the bank to 29% in several steps that involved allegedly illegal financial manoeuvres, now the subject of investigation. The central bank approved each step.

Against this background, Italy's magistrates stepped in. Several weeks ago Milan prosecutors launched a probe into allegations that BPI had violated securities laws. On July 25th they confiscated shares owned by BPI and ten investors amounting to 41% of Antonveneta's stock. On July 27th Consob suspended, belatedly, its approval of BPI's bid. The Bank of Italy finally followed suit. On August 2nd a Milan judge ordered Gianpiero Fiorani, BPI's boss, suspended from his job for 60 days, for fear that he might tamper with evidence. Earlier that day, the judge ratified the seizure of BPI's Antonveneta shares. BPI's board named Giorgio Olmio its interim chief executive.

At the same time, lawsuits and arrests related to Parmalat came as a timely reminder of the fallout of that gigantic corporate scandal. Last week prosecutors requested indictments of Citigroup, UBS, Deutsche Bank, Morgan Stanley, Nextra, the asset-management arm of Banca Intesa, and 13 individuals connected to these banks. On August 2nd prosecutors re-arrested Luca Sala, a former Bank of America employee who worked for Parmalat as chief liaison officer with that bank.

Did nothing change, then, in Parmalat's wake to prevent this banking mess? As soon as the worst of that crisis was over, reform efforts slackened. Maybe Enrico Bondi, special administrator of Parmalat, has done too good a job of cleaning house. Rather than breaking up the firm, he decided to keep it alive and save thousands of jobs. In July Parmalat revealed healthy first-half profits. It is planning to re-list on the Milan stock exchange in October.

Meanwhile, the Italian government is at last awakening to the scale of the dodgy manoeuvres to gain control of Antonveneta. On August 3rd the cabinet met to discuss a report by Domenico Siniscalco, the finance minister, on Mr Fazio's role in the matter. Mr Fazio is no stranger to criticism (see article). But this time he may have trouble outrunning it.

As opposition politicians bayed for the governor's blood, the cabinet was probably wrestling with two issues. The first arises from transcripts of telephone conversations tapped in connection with the BPI probes. These show that Mr Fazio called Mr Fiorani the night of July 12th to break the news that the central bank was approving BPI's bid for Antonveneta. Lawyers argue that he was breaching banking laws by tipping off Mr Fiorani with market-sensitive information. The other is Mr Fazio's decision to overrule his own staff's opposition to BPI's two bids, and to sign their approvals personally.

Mr Fazio is not under investigation for wrongdoing. His main motive for promoting BPI's bids seems to have been the desire to keep Antonveneta in Italian hands. Another reason, say some, was that BPI was on its last legs, and merging it with a healthy bank three times its size was a discreet way of rescuing it. So far, there seems little disposition in government circles to remove him from office. In fact, most ministers are probably hoping that pressure to get rid of Mr Fazio will evaporate during Italy's traditional summer break.

What now for Antonveneta? Although ABN Amro said last week that its attempted takeover had failed, things look different now. With two-fifths of Antonveneta's shares confiscated, the Dutch are technically in control of the bank. They say they are keen to acquire the remaining shares. BPI's appeal against the seizure of its stake in the bank is likely to be heard in court in September. And Consob can suspend BPI's bid until the end of October.

All this has left Italy's reputation as a sensible place in which to invest more than a little damaged. Yet chances are slim that politicians will soon seek to repair it by enacting financial reform. With elections looming in 2006, every move will be made with an eye on the polls. And that means that very little will change.

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Bank of Italy

Fazio's future

Aug 4th 2005 | PARIS
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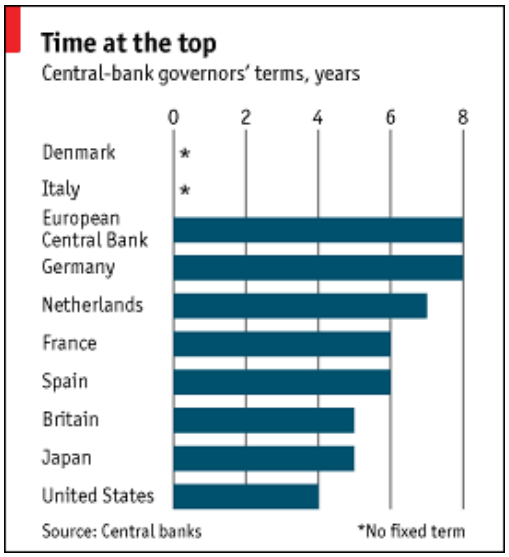
Italy's central-bank governor is under pressure to resign



ANTONIO FAZIO likes his job as boss of the Bank of Italy. He has worked at the central bank since 1966, becoming its governor in 1993. He is one of the best-paid and most powerful central bankers in the world. Like the pope's, his appointment is for life.

It is little wonder, then, that Mr Fazio is fiercely resisting calls for his resignation as a consequence of his role in the supervision of the takeover battle between Banca Popolare Italiana (BPI) and ABN Amro, a Dutch bank, for Banca Antonveneta. He denies any wrongdoing, and so far he is not under investigation in the ongoing probe of allegations of violations of securities laws at BPI. But his career is nonetheless on the line.

Transcripts of telephone conversations between Mr Fazio and Gianpiero Fiorani, boss of BPI, tapped by prosecutors investigating BPI and reported in the Italian press last week, implied that he actively favoured BPI's bids. This week brought worse. On August 3rd *La Repubblica* and other papers published more revealing details of the cosy chats. "*Caro* Gianpiero, I will take care of Consob," said Mr Fazio in one conversation in June when he assured Mr Fiorani that he would put pressure on the boss of Consob, the securities-market regulator, to approve BPI's bid for Antonveneta.

Mr Fazio has been under fire before. He has been criticised for his close relationship with Cesare Geronzi, chairman of Capitalia (the former Banca di Roma). In 1999 Mr Fazio, heavily lobbied by Mr Geronzi, vetoed a bid for Banca di Roma by Sanpaolo IMI, a big bank in Turin, without much of an explanation. He then allowed Banca di Roma, though saddled with bad debts at the time, to buy two sickly banks.

Though muttering there has been, some of it from within the Bank of Italy, never has his competence in supervising mergers and acquisitions, and competition in banking more generally, been questioned as openly as it is today. Mr Fazio has definitely lost his credibility as an impartial arbiter of Italian banking, says Federico Bay at Uniprof, a fund manager in Milan. He speaks for many.

If Mr Fazio should decide to go, various candidates are waiting in the wings. One is Tommaso

Padoa-Schioppa, a former member of the board of the European Central Bank and once the boss of Consob. Another is Mario Monti, a respected former European Competition Commissioner. There is also talk of appointing an insider, Pierluigi Ciocca, who is deputy director-general of the Bank of Italy.

Much of Mr Fazio's decision depends on whether Silvio Berlusconi, the prime minister, will back him. So far Mr Berlusconi has shied away from suggesting that the governor, who has supported his economic policies, should resign. He may well be undecided: he excused himself because of sickness from the cabinet meeting on August 3rd about Mr Fazio's role in the Antonveneta affair.

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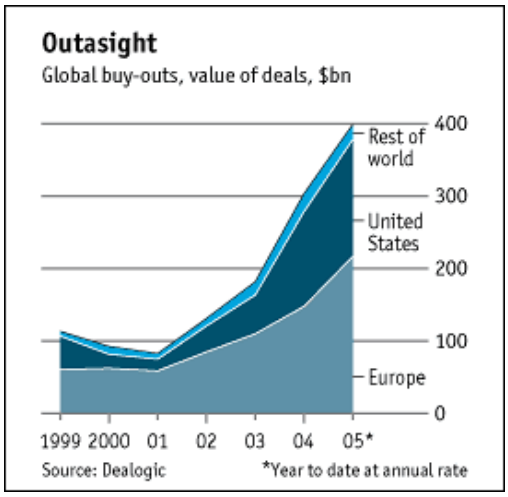
Private equity

Glory days

Aug 4th 2005 | NEW YORK
From The Economist print edition

Buy-outs are booming. Why?



THESE are heady days in the world of big buy-outs. Investors' money is flooding in, swelling private-equity funds to record sizes. Recently the Blackstone Group, a blue-chip private-equity firm based in New York, raised a $12.5 billion fund, the biggest ever.

Deals are getting bigger, too. In late May, an eclectic group of European and American investors including Wilbur Ross, a buy-out specialist, said that they planned to buy 63% of Wind Telecomunicazioni, an Italian telecoms firm, for more than $12 billion. If they do, the deal will trump the purchase announced in March of SunGard Data Systems, an information-services company, for $11.3 billion. And that, in turn, was the biggest buy-out since RJR Nabisco went for $25 billion in 1989.

How different it looked a decade ago. Internet stocks were booming and buy-outs—the business of snapping up undervalued companies, often using big dollops of debt, and selling them later for big profits—seemed old and tired compared with their sexier and more profitable venture-capital counterparts. Then hedge funds stole the limelight after the technology bubble burst. Because these funds can go short as well as long, they posted positive returns even as stockmarkets slumped.

But buy-outs are back. According to Private Equity Intelligence (PEI), a research firm in London, buy-out funds worldwide have raised $81 billion this year through early August, up from $60 billion over the same period in 2004. And they have invested an incredible $233 billion (see chart)—38% more than a year earlier, according to Dealogic, another research firm.

Underlying the boom are several trends. Borrowing costs are low, so private-equity firms have financed acquisitions cheaply. Corporate earnings are robust and lenders desperate for business, so private-equity owners are borrowing still more against firms' growing cashflow. For those buy-out shops that presciently bought undervalued assets in 2002 and 2003, returns today from selling, floating, refinancing or otherwise liquidating earlier investments have been spectacular.

Last year, on figures from PEI, private-equity firms returned a whopping $131 billion in capital to investors, net of contributions. Preliminary figures for the first quarter of this year suggest that the trend continues. On other calculations, buy-out houses in Europe alone paid their shareholders enormous dividends in the first half of this year. Of the record €25 billion-worth of leveraged buy-out

financing raised in Europe, more than €12 billion was used to recapitalise existing deals, according to Fitch, a rating agency. Private-equity investors are essentially borrowing to recover their original stakes and then some, while retaining ownership of the companies involved.

This success in cashing out of earlier deals is further feeding the buy-out boom. For one, it is bringing in new investors: New Jersey's State Investment Council recently decided to give private equity a go, earmarking 5% of its assets to the sector. It is also spurring existing ones to increase their stakes. The huge net flow of cash into their pockets means that pension funds and others must plough more money into private equity just to maintain their “target” private-equity allocations. Many pension funds are happy to do so in hopes that juicier returns from “alternative assets” such as private equity, property and hedge funds will help close their gaping deficits.

So far, so good. But the flood of money brings with it problems. With so much cash chasing similar deals, prices are rising. Competition is especially fierce for the “middle-market” private-equity houses, which compete both with other private-equity firms and with hedge funds.

For the mega-funds such as Blackstone and Carlyle, finding good deals also means finding sizeable ones that are worth their while. Increasingly, big funds are banding together to chase mega-deals. But the supply of attractive, huge deals is finite. And strategic players—generally willing to pay more for deals because of perceived operational synergies—are re-entering the fray.

Most buy-out investors, though, remain sanguine. They argue that opportunities have only increased with time. Back in the 1980s, buy-outs were about financial engineering; today, they allow investors to bet on growth, turnaround situations and, increasingly, the world outside America and Britain. How far will it go? Big buy-out shops are already setting up in India, China and elsewhere. But sharply higher interest rates could put paid to all these plans.

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Trading hedge funds

Online matchmaking

Aug 4th 2005 | NEW YORK
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A new way for alternative investments to find new owners

FOR those who fancy tucking a few million dollars into a select hedge fund, classified ads in newspapers will not do. But Hedgebay, a tidy secondary market for stakes in hedge funds, just might. Hedgebay is a website where serious investors take part in an online auction, finding and selling rare and coveted hedge funds that are closed to new investors. It began as a niche market in 1999, but its volume tripled in 2003 and now grows at an annualised rate of 20%.

Hedgebay furnishes a web-based market without precedent in the murky world of hedge funds, and thus opens an illuminating window on to it. The site lists more than 600 hedge funds—offshore only, to keep the regulators happy. Hedgebay sorts them alphabetically and by strategy, and then invites registered (and carefully scrutinised) users to post offers and bids. After buyer and seller are introduced and come to settle on a price, Hedgebay oversees their transaction, handles the tricky paperwork and takes a cut of 1% or less. The manager of the fund that is changing hands retains the power to veto any sale.

Hedgebay is, in effect, marketing liquidity. Sellers who use the site avoid the lock-up periods during which they cannot sell their shares—which can be three years or more and are enforced by redemption fees. Even the most lenient funds tie up 90% of an investor's assets for a month and the remaining 10% for much longer. Jared Herman, one of Hedgebay's founders, estimates that the site's average seller reclaims the balance of his assets two months earlier than he could ordinarily do.

Sellers may also rejoice in the fact that stakes in good closed funds tend to be worth more than their net asset value: 70% of sales on the site last month commanded a premium. Buyers are happy to spend their way into closed funds at a time when the supply of renowned managers has grown scarce. This year Hedgebay has seen about a dozen trades per month, at an average value of $3m-5m each. Most users are fund-of-hedge-fund managers and all are authorised to invest in offshore funds.

As a gauge of investor sentiment, Hedgebay's listings, updated daily, can be revealing. In July, which saw the highest volume this year, funds employing long-short strategies (owning some assets outright while betting on the price of other assets to fall) attracted the highest premiums. Convertible arbitrage strategies have landed with a thud: some $61m-worth are for sale on Hedgebay against demand for only $17m-worth. A credit-arbitrage fund, hit especially hard by the junked ratings of General Motors and Ford, has $36m in shares marked for sale, most of them at a discount. By contrast, users have posted offers for $116m-worth of European long-short equity funds, mostly at a premium, against a supply of $22m.

Hedge funds are credited with using their high-grade and locked-up investors to bring greater liquidity to remote corners of the capital markets. But the investors' own unslaked demand for liquidity makes Hedgebay an appealing market. Though such high-flying investments may look out of place on a web-based auction block, Hedgebay has every reason to expect its trade to keep growing.

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Asian currencies

Follow the leader?

Aug 4th 2005 | BANGKOK AND HONG KONG
From The Economist print edition

Only a few have risen with the yuan

HOW has last month's revaluation of the Chinese yuan affected other Asian currencies? China competes with most of the countries in the region, and its maintenance of a fixed exchange rate with the American dollar had helped to justify similar systems in Malaysia and Hong Kong. Even countries with more flexible regimes had been intervening to prevent their currencies from appreciating too rapidly, for fear that their exports would lose competitiveness. But so far the knock-on effects from China's currency adjustment have been modest.

One reason is that China's revaluation of 2.1% was itself tiny. Another is that, contrary to conventional wisdom, not all Asian currencies are tied to the dollar. With the exception of Hong Kong, Malaysia and Singapore, most countries already had flexible exchange rates. For example, the South Korean won has risen by 17% against the dollar since the beginning of 2004 and by 29% since 2002.

Malaysia took advantage of China's move to scrap its own currency peg. Like China, it has adopted a managed float whereby the authorities will try to maintain the ringgit's value against a basket of foreign currencies. But the newly liberated ringgit has risen by only 1.4% against the dollar—even less than the yuan.

Singapore has operated a managed float since the 1980s. Since the yuan's recent rejigging, the Singapore dollar has gained just over 2% against the greenback, lifting its total gain since 2002 to 12%. The Thai baht and the South Korean won have also both risen by around 2% against the dollar over the past two weeks, but the Taiwanese and Indian currencies have remained broadly unchanged.

Hong Kong is the least likely to react in the immediate aftermath of Beijing's revaluation. While the Hong Kong dollar is often regarded as a proxy for the yuan, the city's authorities have made it clear that they intend to maintain its 21-year peg to the American dollar. Joseph Yam, head of the Hong Kong Monetary Authority (HKMA), the de facto central bank, said on July 21st, the day China moved, that: “No change is needed for the linked exchange-rate system, which has served us well and which we will keep.”

The HKMA had already prepared for a Chinese revaluation. In May, it switched from simply maintaining the exchange rate at above HK$7.80 to the American dollar to a trading band of HK$7.75-7.85. For the first time, this added a ceiling to the floor by which it had traditionally managed the currency, in a move to discourage investors from using the Hong Kong dollar to speculate on yuan appreciation. It has worked: while the Hong Kong dollar is currently trading near the new ceiling, at HK$7.77, there is no sign of overwhelming inflows of speculative money.

If (still a big if) the yuan rises further, Hong Kong's economy will benefit. Its exports would become more competitive in the region, and tourism from the mainland should increase. So would investment—particularly in property, where prices are already soaring. And to the extent that the revaluation promotes China's stability and demonstrates its improving macro-economic management, it opens the door a crack to what Tim Condon, chief economist at ING Financial Markets, calls “the endgame” for the Hong Kong dollar: an eventual currency union with China.

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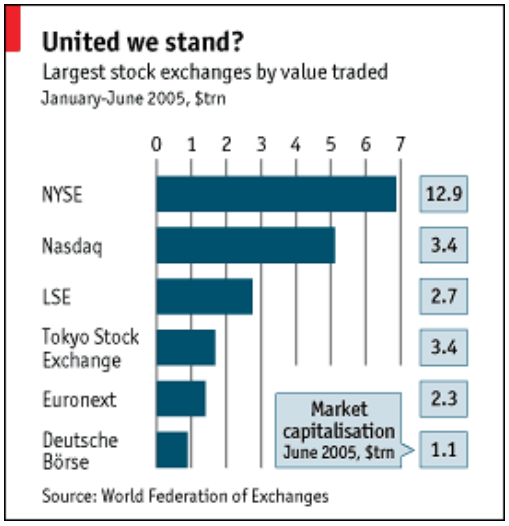
Stock-exchange mergers

Three-dimensional chess

Aug 4th 2005 | FRANKFURT
From The Economist print edition

Post-trade concerns could hamper a pan-European solution



THE long-running fuss over the London Stock Exchange (LSE) and its possible partners took a new turn last week. Britain's Competition Commission indicated that there would need to be “remedies” if either of two European exchange groups, Deutsche Börse or Euronext, were to buy the LSE. In each case the most likely remedy would be a clear severance of business interests between the acquirer and the clearing company associated with it—Eurex Clearing, which is wholly owned by Deutsche Börse, and LCH Clearnet, 41% of which is owned by Euronext.

If such remedies were prescribed in drastic form, they might well rule out both mergers. Neither potential buyer would easily sell its clearing company (in any case, neither may still be very interested in a merger). Deutsche Börse insists that it simply would not offer Eurex Clearing for LSE trades. Most LSE transactions are already cleared through LCH Clearnet, and Euronext reckons its hands-off policy would prevent abuse. The Competition Commission will not reach a final verdict until November. But its focus is squarely on the post-trade aspects of any merger.

Clearing and settlement are the unglamorous but essential bits of share trading. After a purchase is agreed, a clearing-house makes sure that the stock can and will be paid for by the buyer. A securities depository then moves the title of the share from the seller to the buyer. Does an exchange's control over clearing and settlement lead to monopolistic pricing?

Because economies of scale are so important, clearing and settlement have tended to be quasi-monopolies. Opening these activities to competition seems not to work very well. An example is virt-x, a small electronic exchange for European blue-chip shares which offers clearing and settlement alternatives: nearly all the liquidity has migrated to just one of them.

America's regulators decided years ago that clearing and settlement would best be handled by a single monopolistic entity, the Depository Trust & Clearing Corporation (DTCC). So there is no problem about who clears and settles in the proposed mergers between the New York Stock Exchange and Archipelago, an electronic exchange, or between Nasdaq and Instinet, another electronic exchange.

The real issue—and it is well beyond the remit of Britain's competition watchdog—is what the future

stockmarket landscape of Europe should look like. The European Central Bank, which ought to see the big picture, is in favour of a clearing and settlement system, or network of systems, within the euro area, but is wary of letting a new monopoly develop.

The European Commission is also worrying at the topic. One of its departments, DG Markets, is considering drafting a directive that would aim to harmonise clearing and settlement in Europe and would perhaps insist that they be interlinked, with transparent pricing. Another, DG Competition, last week sent a questionnaire to all exchanges to learn how prices for trading, clearing and settlement are formed and possibly cross-subsidised.

Because clearing and settlement are complex activities and their interplay with trading is not well understood, there is plenty of scope for interested parties to lobby furiously with arguments as bamboozling as three-dimensional chess. Deutsche Börse is often painted as the villain for its control over clearing and settlement, the so-called “vertical silo”. In fact the Euronext structure is not that different. Only the LSE has made a virtue of not controlling post-trade activity, a strategy that is likely to cost it its independence.

Less evident in this debate are the interests of the consumer. Freer competition might benefit brokers and investment banks, which compete with exchanges and post-trade services as well as use them. But an American-style DTCC, or two that compete, could simplify the services and cut their cost to individual investors.

The architects of a truly Europe-wide capital market, with a glance at consolidation among American exchanges, may hasten to encourage a pan-European solution, rather than fretting about silos. Then Britain's Competition Commission will have a new task: deciding whether it could accept a fusion of the LSE with both Deutsche Börse and Euronext.

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German economy

The darkest hour before dawn

Aug 4th 2005
From The Economist print edition

Deutschland AG is starting to look like a bargain

Get article background

ALMOST everywhere, equities, property and bonds look expensive compared with what they used to fetch. Investors have pushed up prices to giddy heights in their search for higher returns. Are there any assets left that still look cheap? Yes, curiously: in Germany.

German shares are undervalued compared with those in America and the rest of Europe (see chart 1). Not only do they trade at lower multiples of earnings than elsewhere; their p/e ratios are also lower than they used to be in Germany itself.

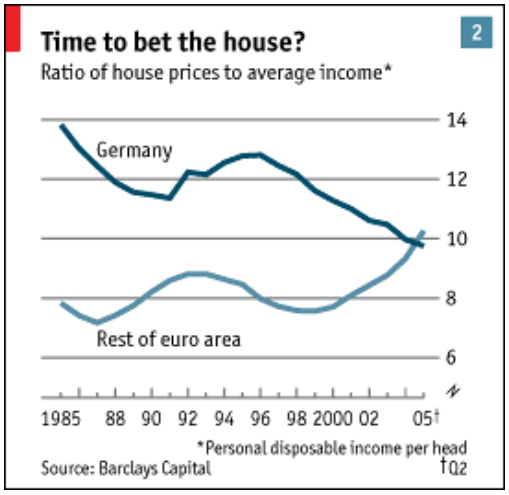
Then there is property. Long the most expensive in Europe, German houses are also starting to look like a bargain. While house prices elsewhere have soared, in Germany they have been falling for most of the past decade. Figures from Barclays Capital, the investment-banking division of Barclays Bank, show that in 1985 the average house cost three times as much in Germany as in the rest of the euro area, while today they cost roughly the same. In relation to incomes, though, German homes are now cheaper than the European average (see chart 2).

Sceptics will argue that Germany's assets are cheap because its future growth prospects are poor. It has been the slowest-growing economy in the euro area for the past ten years, and its GDP figures for the second quarter (due on August 11th) are expected to disappoint again. But the tide may be turning. Corporate Germany is in the throes of a big shake-up among top managers. Even before this began, German firms had hugely improved their competitiveness and profits in recent years by slashing costs. Thanks to faster productivity growth than the euro-zone average, combined with the slowest wage growth, Germany's unit-labour costs have fallen by 10% relative to the euro-zone average over the past five years.

The threat that factories could be moved to central Europe has forced workers at many big German firms to work longer hours or take a pay cut. Government reforms to make labour markets more flexible have also gone further in Germany than in Italy or France. According to Morgan Stanley, an investment bank, more than 30% of Germany's workforce now have part-time or temporary jobs, allowing firms to make better use of workers.

Mainly as a result, companies are pricing themselves back into world markets, and profits have surged. Germany is the only G7 country to have increased its share of world exports over the past five years. The snag is that all this cost-cutting has depressed real domestic demand, which has more or less stagnated for five years. Fears about job security have hurt consumer confidence and spending. This, in turn, makes companies reluctant to expand.

Despite this gloom, analysts at ABN Amro, a Dutch bank, are tipping Germany to become one of the strongest performers in Europe. They point to some tentative signs that stronger profits are starting to make businessmen happier. The Ifo survey of business confidence rose by more than expected in July. And a likely change in government after the general election in September should accelerate reforms and give another fillip to business.



There are also signs that the labour market is stabilising, with unemployment in July falling for the fourth month running. Other indicators confirm that the worst may indeed be over. Job vacancies are 50% higher than a year ago, and the latest survey by Manpower, a recruitment agency, shows a sharp increase in firms' hiring intentions in the third quarter. This is the biggest improvement in the indicator for any large economy in the past year.

Even if Germany's unemployment rate (now 11.6%) remains high, so long as it continues to fall, concerns about losing jobs will ease and consumers may think about opening their wallets. The economists at ABN Amro suggest that the weakness of consumer spending in recent years implies a significant pent-up need to replace durable goods. German households still save 11% of their income, unlike their house-rich American counterparts who, according to the latest figures, now save exactly 0%. So there is scope for a modest fall in saving—hence a bigger rise in spending—once Germany's consumer angst fades.

Improved employment prospects are only one reason why the economy may be set to pick up. House prices too, have room to rise—unlike in most other countries. And if both consumer spending and property prices recover, they are likely to reinforce each other.

A new report by Merrill Lynch, an investment bank, reckons there is a good chance that German house prices could take off. The rate of home ownership in Germany, at 44%, is the lowest in the rich world. Much of the housing stock is owned by companies or by regional and central governments, many of which are now being forced to sell their portfolios in order to raise money.

In the short term, this additional supply could keep prices low. But if home ownership becomes more widespread, prices should rise eventually. So far, the properties are mainly being snapped up by foreign financial institutions, but this could be a half-way house to wider owner-occupancy and higher prices. Merrill Lynch says that private-equity firms and banks will want to realise the value of their portfolios. Some investors, such as Terra Firma, a British private-equity firm, have already linked up with mortgage providers to finance and sell properties to tenants.

Faster productivity growth, stronger consumer spending and rising asset prices? Germany's “new economy” may be waiting in the wings.

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Economics focus

Is there any point to the WTO?

Aug 4th 2005
From The Economist print edition

Does the World Trade Organisation promote trade? A reprise

Get article background

SUPACHAI PANITCHPAKDI, the softly spoken director-general of the World Trade Organisation (WTO), steps down this month with precious little to shout about. Not so long ago, he was hoping to announce a breakthrough in the Doha round of trade talks, which must agree on a template for cutting tariffs and subsidies at a big ministerial meeting in Hong Kong this December. But instead of ending on a high, Mr Panitchpakdi's watch closed with kerfuffles over bananas and ball-bearings.

On August 1st, the WTO rejected the European Union's (EU) proposed reform of its banana policy, which favours growers in its former colonies over cheaper plantations in Latin America. On the same day, Japan, traditionally a pacifist in trade wars, said it would retaliate against America's abuse of the WTO's anti-dumping rules. Japan will put an extra 15% duty on 15 American products, including forklift trucks and ball-bearings. With litigation and retaliation overshadowing negotiation, the high hopes invested in the Doha round look increasingly vain.

Were those hopes misplaced from the start? Perhaps so, according to Andrew Rose, of the University of California, Berkeley. In a much-debated paper*, first circulated in 2002 and published last year in the *American Economic Review*, Mr Rose failed to find any compelling evidence that the WTO or its predecessor, the General Agreement on Tariffs and Trade (GATT), promoted trade. Yes, trade has bloomed since the GATT was founded in 1948. But it has flowered for the system's members and non-members alike. By this reckoning, the “hoopla” and “hype” that surrounds the WTO's successes, failures and admissions of new members are just that: hoopla and hype.

Needless to say, Mr Rose's results have generated much puzzlement and discussion, in this column (“Weighing up the WTO”, November 23rd 2002) and elsewhere. So which stands up better to scrutiny? Mr Rose's results, or the WTO's record?

One of the more interesting questions is also the most basic: who is in and who is out? A recent working paper† by three political scientists at Stanford University points out that perhaps as many as 78 countries were members of the post-war GATT in all but name. Counting these countries as members overturns Mr Rose's damning verdict on the system, they claim. By contrast, another critique††, by Arvind Subramanian and Shang-Jin Wei of the IMF, argues that many countries are members of the WTO in name only. Discounting them also changes Mr Rose's results.

The Stanford authors show that many colonies took on the rights and responsibilities of GATT membership, even if their names did not appear on the organisation's roster. For example, all of France's territories, except Morocco, had the agreement accepted on their behalf by the “mother country”. When they won their independence, many colonies remained de facto members for a twilight period, while they decided whether to sign up in their own right. They were joined by another group of countries, such as Switzerland and Israel, that became “provisional” GATT members for years before they were accepted as fully fledged insiders. If all of these dependants, wannabes and hangers-on are counted as members, the authors find that trade between GATT insiders is 72% higher than trade between outsiders.

A poor showing

Messrs Subramanian and Wei take a different tack. They argue that poorer countries, even founding members of the GATT such as India, have not been true protagonists in the system. These countries

enjoy “special and differential treatment”, which exempts them from any great obligation to liberalise. By the late 1980s, for example, developing countries had agreed to set ceilings on less than a third of their tariffs. And because the few ceilings they had established were typically higher than existing tariffs, they were not meaningful.

Exempted from so much, developing countries have had little to offer fellow members. They have a seat at the negotiations, but nothing much on the table. As a result, many of the sectors in which they enjoy a comparative advantage, such as agriculture, textiles and clothing, were neglected by successive trade rounds.

Messrs Subramanian and Wei hope that this is changing. They show that developing countries, such as China, which joined the WTO more recently have been asked to open up much more as the price of entry. Nonetheless, the WTO and the GATT appear much more successful if developing countries are left out of the picture. Membership boosts the imports of rich countries by 175%, the Fund economists reckon. The WTO and its predecessor have done a “splendid job of promoting trade”.

Some of the other differences between their calculations and Mr Rose's are more subtle and methodological. They look only at a country's imports, not its exports. They also quarrel with Mr Rose's treatment of regional trade agreements, such as the North American Free Trade Agreement. If two countries are members of such a pact, WTO membership adds little, if anything, to their trade with each other. Mr Rose holds this against the WTO. The two Fund economists think it is wrong to expect otherwise.

But in the end, their disagreement is more apparent than real. Though they are fans of the WTO, Messrs Subramanian and Wei concede that it demands too little of its poorer members, is often superseded by regional trade agreements (where they exist), and has historically neglected agriculture, textiles and clothing. Aside from that, the two economists liked the play. Or, as Mr Rose wryly puts it, “if you ignore its many failures, the GATT/WTO has been successful.”

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*“Do We Really Know that the WTO Increases Trade?”. *American Economic Review*, March 2004

†“Membership has its Privileges”, by Michael Tomz, Judith Goldstein and Douglas Rivers. Working paper, February 2005

††“The WTO Promotes Trade Strongly but Unevenly”, CEPR Discussion Paper 5122. July 2005

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Medicine

Containing a pandemic

Aug 4th 2005
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AP

Two studies suggest it may be possible to prevent a global outbreak of deadly influenza by using anti-viral drugs

FOR many years, virologists have been warning that an outbreak of pandemic influenza is overdue. Unlike the seasonal version, pandemic influenza is usually severe and deadly—the result of a genetic mutation in the virus. Influenza pandemics happen from time to time. Three occurred during the 20th century. The worst was in 1918, when one-quarter of the world's population fell ill and 25m-50m people died. The strain of avian influenza (bird flu) that is currently endemic in Asia has just the characteristics that keep epidemiologists awake at night. In the past week, bird flu has also been reported in birds (and also a person) in Russia and Kazakhstan.

Can anything be done to prevent deaths on a widespread scale? This week, two different papers modelling the epidemiology of influenza were published in *Science* and *Nature*. Both suggest that, under certain conditions, the tactical deployment of anti-viral drugs might contain, or even eliminate, an outbreak of human influenza.

In Hollywood films, when a nasty new organism attacks humans, the valiant virologists are able to identify it and produce a vaccine just in time to save everyone. In the real world, it would take four to six months to produce vaccines on the scale needed to tackle influenza. Some countries have taken to stockpiling vaccines against the strain of bird flu that is currently circulating, but there is no guarantee that this vaccine will convey enough protection against any human strain that might emerge.

In order to model the spread of influenza, the researchers needed to consider, among other factors, how quickly the virus jumps from person to person, how long a person can be infectious without showing symptoms and the number of secondary cases generated by a primary case in a susceptible population. In both papers, these things were estimated on the basis of what is known about previous pandemics. While any model is only as good as the assumptions that it makes, some useful information did emerge.

Both papers conclude that between 100,000 and 3m doses of anti-viral drugs would be needed to stamp out an outbreak, if deployed within three weeks of detection of the first case and combined with household quarantine. Where the virus is more transmissible or where the pandemic emerges simultaneously in many places, the number of doses needed would be at the top of this range. To prevent the spread of disease, anti-viral drugs would also have to be given to a high proportion of people in the surrounding area (the figures include these doses).

The papers' findings make it more urgent to complete current negotiations between Roche, the manufacturer of the anti-viral drug oseltamivir (Tamiflu), and the World Health Organisation on the creation of a global stockpile that could be delivered rapidly to the source of an outbreak. David Reddy,

who is in charge of pandemic preparedness at Roche, says that the firm is in advanced discussions over donating a stockpile of Tamiflu on this scale.

Although some countries have recently chosen to stockpile anti-viral drugs, primarily Tamiflu, this is not in order to eliminate the virus. In the case of an outbreak, doctors and nurses in these countries would be given the drugs to prevent them catching the flu from their patients. Anti-viral drugs would also be given to some of those who catch influenza—the disease is particularly dangerous in people with respiratory complaints—to reduce their symptoms and, hopefully, prevent death.

Drugged up

Countries that have disclosed orders of the anti-viral drug oseltamivir (Tamiflu)

Australia	France	Norway
Belgium	Hong Kong	Singapore
Britain	Iceland	South Korea
Canada	Ireland	Switzerland
Czech Republic	Luxembourg	Thailand
Denmark	Netherlands	United States
Finland	New Zealand	

Source: Roche

Although there are many other assumptions in the models that may not hold, there is one final bit of good news. In scenarios where containment does eventually fail, implementing the strategy can delay the spread of influenza by a month or more—a respite that should diminish the delay between the start of the pandemic and the arrival of a vaccine, and hence reduce the number of subsequent deaths.

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Theories of humour

Poking fun

Aug 4th 2005 | TUEBINGEN, GERMANY
From The Economist print edition

Why people laugh

THE true story of how your wife's stalker rang her to discuss killing you isn't supposed to provoke mirth. But when John Morreall, of the College of William and Mary in Virginia, related the events last week to a group of scholars in Tuebingen in Germany, they were in stitches as he divulged the details of how his wife tried to dissuade the confused young man by pleading that her mortgage was too large to pay without her husband's help.

So why did they laugh? Dr Morreall's thesis is that laughter, incapacitating as it can be, is a convincing signal that the danger has passed. The reaction of the psychologists, linguists, philosophers and professional clowns attending the Fifth International Summer School on Humour and Laughter illustrates his point. Dr Morreall survived to tell the tale and so had an easy time making it sound funny.

One description of how laughter is provoked is the incongruity theory developed by Victor Raskin of Purdue University and Salvatore Attardo of Youngstown State University, both in America. This theory says that all written jokes and many other humorous situations are based on an incongruity—something that is not quite right. In many jokes, the teller sets up the story with this incongruity present and the punch line then resolves it, in a way people do not expect. Alternatively, the very last words of the story may introduce the absurdity and leave the listeners with the task of reconciling it. For instance, many people find it funny that a conference on humour could take place in Germany.

Why do people laugh at all? What is the point of it? Laughter is very contagious and this suggests that it may have become a part of human behaviour because it promotes social bonding. When a group of people laughs, the message seems to be “relax, you are among friends”.

Indeed, humour is one way of dealing with the fact that humans are “excrement-producing poets and imperfect lovers”, says Appletree Rodden of the University of Tuebingen. He sees religion and humour as different, and perhaps competing, ways for people to accept death and the general unsatisfactoriness of the world. Perhaps that is why, as Dr Morreall calculates in a forthcoming article in the journal *Humor*, 95% of the writings that he sampled from important Christian scholars through the centuries disapproved of humour, linking it to insincerity and idleness.

Fear of idleness is why many managers discourage laughter during office hours, Dr Morreall notes. This is foolish, he claims. Laughter or its absence may be the best clue a manager has about the work environment and the mood of employees.

Indeed, another theory of why people laugh—the superiority theory—says that people laugh to assert that they are on a level equal to or higher than those around them. Research has shown that bosses tend to crack more jokes than do their employees. Women laugh much more in the presence of men, and men generally tell more jokes in the presence of women. Men have even been shown to laugh much more quietly around women, while laughing louder when in a group of men.

But laughter does not unite us all. There are those who have a pathological fear that others will laugh at them. Sufferers avoid situations where there will be laughter, which means most places where people meet. Willibald Ruch of Zurich University surveyed 1,000 Germans and asked them whether they thought they were the butts of jokes and found that almost 10% felt this way. These people also tended to classify taped laughter as jeering. Future research will focus on the hypothesis that there is something seriously wrong with their sense of humour.

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Astronomy

To be, or not to be

Aug 4th 2005
From The Economist print edition

A chance to cut the number of planets in the solar system to eight

"MY VERY educated mother just served us nine pizzas." Many American school children are taught this mnemonic to help them remember the order of the planets of the solar system. Soon though, this may change because, on July 29th, a team of astronomers announced the discovery of a very distant celestial body larger than Pluto. The researchers claim that the new body—which they are informally calling Xena—should be classified as a planet.

The new body—temporarily named 2003 UB313—orbits the Sun once every 560 years. It is currently over 14 billion kilometres away, about three times farther out than Pluto, making it the most distant object ever discovered in the solar system. The researchers think it is part of the Kuiper belt, a ring of rocky objects that extends beyond Neptune.

Mike Brown of the California Institute of Technology, Chad Trujillo of the Gemini Observatory and David Rabinowitz of Yale University discovered the object in data recorded at the Palomar Observatory in San Diego in October 2003, but its motion did not become apparent until they reanalysed the data in January 2005.

The question of whether or not the new body should be considered a planet has rekindled the debate over what exactly counts as a planet. A handful of objects of similar size to, but smaller than, Pluto have been discovered in the Kuiper belt over the past few years. These have not been considered planets, mainly because they were smaller than Pluto. But 2003 UB313 is larger than Pluto. If Pluto is a planet, shouldn't it be as well?

The case is not so clear cut. Many astronomers argue that Pluto should not be considered a planet. It is more like a large asteroid, they hold. Meanwhile, Dr Brown asserts that as Pluto has historically been considered a planet, anything larger should also be considered one.

Ultimately, the International Astronomical Union, a group of professional astronomers, will end this existential angst. Dr Brown expects the process to take months, and the team is not allowed to reveal its suggested name until then. Since most Greek and Roman names have already been used, he and his colleagues have previously drawn upon Native American and Inuit mythology for names. He will only hint that the new name comes from a different tradition altogether.

Time will tell whether mother will be serving "nine polished xylophones", "nine pizzas" or just "noodles".

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Shuttle

Onwards and downwards

Aug 4th 2005
From The Economist print edition

A near miss for the shuttle—and red faces at NASA

Reuters

Treating the belly of the beast

Get article background

ON TUESDAY July 26th, the space shuttle *Discovery* launched from the Kennedy Space Centre in Florida to much national jubilation. The delight was short-lived. It was soon discovered that a large piece of foam had fallen off her external tank. This looked ominous: it was a large chunk of falling foam that damaged the shuttle *Columbia* in 2003 and caused it to burn up when re-entering the Earth's atmosphere, killing the entire crew.

After several years of refitting at a cost of around $1.5 billion, NASA, America's Space Agency, had hoped that it would not face another such risk. But the situation may not be as bad as it first appeared. *Discovery*'s chunk of foam is smaller than the piece that helped to destroy *Columbia*. It was travelling more slowly and going in a completely different direction. And, what is more, this large chunk did not hit the shuttle. As a result, NASA believes that *Discovery* should land safely.

It was never NASA's intention to eliminate entirely the shedding of foam—nor, indeed, is it thought possible to eliminate foam shedding. Instead, the agency focused on reducing the size of the bits that fell off to the point of insignificance. It also took steps to prevent debris from hitting the shuttle. Indeed, NASA managed to slash the number of times the shuttle was struck by falling foam from an average of 150 on previous launches to just two dozen this time and *Discovery*'s launch was relatively clean. NASA administrator Mike Griffin says *Discovery* is “the cleanest bird we've had on orbit in recent memory. So we think she is safe to bring home.”

Yet the problem of that one largish chunk, weighing around a pound, remains. Why did it come off? A bit of background is needed. The fuel tank is coated with a polyurethane-like foam, about an inch thick, which insulates the cold liquid propellants inside and prevents ice from forming on the outside of the tank. Falling ice, too, could damage the shuttle on launch.

Some 90% of the foam is applied by robots. This tends to be less likely to flake off, as there are fewer voids or imperfections. On geometrically tricky areas, however, the foam is applied by hand. These areas are most prone to shedding. When modernising the tank, NASA had focused on them. For

example, one problematic area was at the place where the shuttle is attached to the external tank. Here foam was removed completely and heaters were installed instead to prevent ice building up.

Although the so-called “PAL ramp” area—from which the large chunk of foam was lost—was considered for a new improved spraying process, NASA decided the shuttle was safe to fly without this modification. One of the reasons for this decision was that foam from this area had not come off since 1983. Another is that tests on the hand-applied foam revealed no voids or imperfections hidden underneath the surface. NASA was open about its decision and shuttle commander Eileen Collins was aware of the decision.

NASA has said it will not fly any more shuttles until it has fixed this particular problem. At present, it is too early to say whether this will be a difficult problem to fix and thus whether the shuttle will remain grounded for long.

However, the team working on it is already said to understand what is causing the problem. Furthermore, a number of previously researched fixes are also available. These include redesigning the area to eliminate the ramps, changing the foam composition or application process, and greatly reducing the volume of foam.

In many ways, this flight has shown up both the strengths and weaknesses of NASA's approach. The new arrays of cameras and sensors will provide data that will be used to make the shuttle safer. But it has also given everyone a lot more information to fret about—from damage caused by relatively small foam chunks hitting *Discovery* to bits of filler sticking out from the shuttle's undersurface.

These bits of filler were a worry because NASA scientists calculated that, by disturbing the smooth flow of air, the extruded filler could increase the heat on re-entry of tiles downstream of it by between 10% and 30%. So the agency decided this week to order an unprecedented space walk to fix the problem. It was completed successfully on Wednesday.

The shuttle remains an ageing, expensive and difficult-to-maintain vehicle that needs replacing. And yet, given the complexity of building reusable space vehicles, its record has not been that bad. The shuttle programme has managed over 110 flights in which foam chunks, extruding filler or other problems have not brought an orbiter down. There were, however, two flights in which, tragically, faults did cause disaster and the loss of 14 lives. The shuttle *Challenger* disintegrated soon after take-off in 1986, killing the entire crew. The other was *Columbia*. Today, with the redesigned shuttle and less damage from debris, it should be safer—even if, in some areas, foam is still coming away in larger chunks than was hoped.

Still, the pressure is very much on NASA. This latest mishap has breached the agency's own protective shielding. If NASA cannot hunt down and eliminate this problem, then it is difficult to see how it could continue with the shuttle programme—whatever its obligations to the international partners in the space station and even if *Discovery* has a picture-perfect, and safe, landing this Sunday.

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Opera recordings

Vocal perfections

Aug 4th 2005
From The Economist print edition

Rex Features

A new "Tristan und Isolde" may be the last-ever studio recording of a major opera

MONUMENTAL is the right word for EMI Classics' new recording of Wagner's "Tristan und Isolde". Plácido Domingo, at the distinctly mature age of 64, is singing the title role for the first time in his career, and he has done it just in time. For this is likely to be the last new studio recording of a Wagner opera, or any other opera on that scale.

It took 15 sessions, spread over eight weeks last winter, to complete the recording at the Abbey Road Studios in London's St John's Wood. Although no one at EMI seems to question the artistic imperative for doing it, a combination of cost and consumers has caused a fundamental rethink about the way opera should be packaged and sold. "It's the least-productive time for recording since the 1950s," says Theo Lap, vice-president of EMI Classics.

Mr Domingo's fees, together with those of the distinguished cast, were not the major expense. Hiring the orchestra of the Royal Opera House, Covent Garden, under its admirable conductor, Antonio Pappano, and booking the recording studios for weeks on end pushed costs to over £500,000 ($885,000). At the same time, the market has been changing fast. Many opera-lovers who used to buy CDs now prefer to watch and listen to a DVD of a live performance.

In a little over half a century, studio recordings of great but imposing works by composers such as Wagner have come full circle. The first complete recording of "Der Ring des Nibelungen", conducted by Sir Georg Solti, had an incalculable impact by broadening musical taste. Carlo Maria Giulini's 1970 version of Verdi's "Don Carlos" is still considered one of the greats, as is Berlioz's "The Trojans", which was conducted in 1986 by Sir Colin Davis. The first Tristan, which led the way in 1953, became possible because of the invention of the 33-rpm long-playing record. The performance was conducted by Wilhelm Furtwängler, with Kirsten Flagstad, an incomparable Norwegian soprano, as Isolde.

That recording was notorious as well as celebrated, however, because two of the difficult high C's in the climactic love scene were sung not by Flagstad at all, but by Elisabeth Schwarzkopf, then a young soprano who could manage them better than the Norwegian, with her heavier voice. Such technical tricks were taken for granted by record producers and engineers, who wanted the sound to be perfect, and took time to make it so. A number of music critics denounced the inauthenticity, but the audience did not mind. This brilliant EMI recording still sells steadily.

Mr Domingo is EMI Classics' prized possession. He is perhaps the greatest of the three great tenors, which also include Luciano Pavarotti and José Carreras. He conducts opera, and is the general director of the Washington National and the Los Angeles Opera companies. He has sung no less than 115 operatic roles, which take him from Mozart to Wagner, via Handel, Offenbach and Andrew Lloyd Webber. His

performance of Siegmund in Wagner's “Die Walküre” at Covent Garden last month was unforgettable. So when Mr Domingo told EMI Classics that he was ready to record Tristan a couple of years ago, no one needed to consult the board. All they had to do was find the money to pay for it. An anonymous sponsor helped the project along with a substantial, but undisclosed, donation.

Mr Lap clearly has to maintain some sort of balance between artistic and commercial advantage, but it is very hard. The first shipment of Mr Domingo's Tristan, released worldwide on August 1st, numbered 15,000 sets of three CDs and a complete sound track on DVD. If sales reach 40,000 in the first year, Mr Lap will be well pleased, but that does not mean EMI will have begun to recoup its investment. He talks in terms of 50 years, maybe never. That is the measure of Mr Domingo's importance to EMI.

Opera on DVD now sells more than CDs or video. Since it is a visual experience, collectors are willing to sacrifice perfect sound and the cast of star singers, even in small parts, that are the rule on CDs. Co-productions with broadcasters or opera houses can produce DVDs of live performances for around £100,000, or one-fifth of the cost of a major studio recording. Only EMI and Universal retain a fragile commitment to studio recording, but Mr Lap talks only in terms of significantly cheaper recordings of shorter works by Verdi and Puccini. “We will continue to make one or two a year,” he says. But no more Wagner.

Mr Domingo's Tristan, with his Isolde, the accomplished Swedish soprano Nina Stemme, is the last of a distinguished line. Was it worth the trouble and expense? Since he came late to Wagner and he has never sung the role on stage, the performance will be scrutinised by music critics to see how it compares with his luminous Siegmund and his Parsifal, and with other Tristans. Mr Domingo himself has no illusions about the scale of the challenge. He told the *Gramophone* that the role is so demanding on a tenor voice that he feared his vocal cords would be damaged by a stage performance. Recording gives the voice time to recover between sessions, and to repeat imperfectly sung passages.

His voice is now better suited to the part than it once was. Wagner's roles were written for a *Heldentenor*, a heroic tenor voice. As Mr Domingo's voice has darkened with age it has taken on the *helden* quality. In the past, he has been criticised for his uncertain command of German. The diction of Ludwig Suthaus on Furtwängler's Tristan is noticeably clearer than Mr Domingo's. But this is nitpicking. Wagner is writing about love and death. Mr Domingo and Ms Stemme together produce a musical lyricism and a sexual passion that make the cost and the effort entirely worthwhile.

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The Israeli-Palestinian deadlock

Where to now?

Aug 4th 2005
From The Economist print edition

WHEN Theodor Herzl, the father of political Zionism, wrote “The Jewish State” he rose above the awkward fact that his longed-for homeland was already occupied. Yet, as Peter Rodgers, a former Australian ambassador to Israel, notes in his clear-eyed little book, the notion of “transferring” those troublesome Palestinian squatters had “bobbed around in Zionist thinking from the start”. Ethnic cleansing, in some form, was intrinsic to the dream. Some fear that it still is.

In his 1865 diary, Herzl spoke of “spiriting the penniless population” across the border “discreetly and circumspectly”. David Ben-Gurion in the late 1930s wrote to his son, “We must expel the Arabs and take their places.” During Israel's 1948 war of independence some 700,000 Palestinians were indeed expelled or fled. But this number, as some Israeli historians now admit, turned out to be too few for Israel's future comfort.

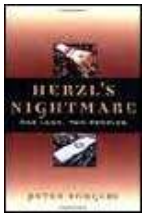
Israel, Mr Rodgers bleakly writes “is no nearer to resolving the fundamental dilemma of its creation: what to do with and about the Palestinians; how to be accepted as an organic part of its region and not as a 20th-century infiltration.” Critical of Palestinian as well as Israeli leadership, he looks into a black future. Israel's disengagement from Gaza is curtly dismissed as long overdue and woefully inadequate. Settlement construction in the West Bank, which continued inexorably throughout the years of peacemaking, has become, he argues, a prophylactic against a separate Palestinian state. Is it too late for Palestine, he asks? Is it becoming too late for Israel?

Disillusion with the long-held aim of separate Israeli and Palestinian states existing peacefully side by side is persuading some to consider the alternative of a single binational state. Virginia Tilley, an academic, urges this, not because she underestimates the vast difficulties of a shared state, including the demographic ones, but because she believes all other roads to a peaceful solution are closed. She plunges bravely into controversy, asking “precisely what dimension of Jewishness would be risked or lost in conditions of a non-Jewish majority [in a multi-ethnic state].” She is more convincing in her arguments about what is unlikely to work than about what might.

Daphna Golan-Agnon points out that, in Hebrew, the words “sharing” and “dividing” come from the same root. This caused confusion when she was helping to organise an Israeli-Palestinian festival on sharing an undivided Jerusalem. Controversy about Jerusalem's future belongs to a happier period of peace-building. But if such time should come round again, John Whitbeck's useful essay on joint undivided sovereignty for the city, which was written some ten years ago and is now being republished, would bear re-reading. His “condominium solution”, as he calls it, is included in a collection of the articles that Mr Whitbeck, who runs a website, has written over the past few years, mainly in the Arab press.

Ms Golan-Agnon is one of a small band of Israelis who labour tirelessly for Palestinian human rights. She helped to found B'Tselem, an indispensable Israeli organisation that monitors what is happening to the Palestinians; she started and ran a women's human-rights and peace-seeking organisation; and she has worked doggedly to make torture illegal in Israel, although she sadly admits that

Herzl's Nightmare: One Land, Two Peoples
By Peter Rodgers



Nation Books; 144 pages; $13.95. Constable & Robinson; £6.99

Buy it at
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The One-State Solution: A Breakthrough Plan for Peace in the Israeli-Palestinian Deadlock
By Virginia Q. Tilley

University of Michigan Press; 296 pages; $27.95. Manchester University Press; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Next Year in Jerusalem: Everyday Life in a Divided Land
By Daphna Golan-Agnon

forms of torture continue to be practised.

Her refreshingly honest book is much more than a list of achievements. More often than not she is weary and frustrated. Nothing changes in the asymmetrical circumstances of Israel and the Palestinians, her family grumble at her immersion in politics, and her Palestinian female colleagues are reluctant to treat her as a friend or even share a meal with her.

One Palestinian colleague who would surely be treasured as a friend is Suad Amiry. She lectures on architecture at Birzeit University and has written a wonderful little book about the absurdities and agonies of life under occupation and curfew.

A spirited, witty woman, Ms Amiry can more or less cope with the mortifications of being bullied by young Israeli policemen but finds it trickier to deal with her mother-in-law, who is over 90. With difficulty, she rescues the old lady during the siege of Ramallah, but then has to live with her. And her mother-in-law insists, regardless of very present dangers, on everything being just so: meals at the right time, and served with the right china and cutlery.

Under curfew, writes Ms Amiry in a memorable passage, “houses gradually metamorphosed into nothing but kitchens and bedrooms. Excessive eating, screaming at one another and producing babies were the only three possible activities. No wonder the Israelis are totally obsessed with demographics.”

Herzl's Nightmare: One Land, Two Peoples.
By Peter Rodgers.
Nation Books; 144 pages; $13.95. Constable & Robinson; £6.99

New Press; 298 pages; $24.95 and £15.99

Buy it at
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The World According to Whitbeck
By John V. Whitbeck

Five and Ten Press; 105 pages; $10

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Sharon and My Mother-in-Law: Ramallah Diaries
By Suad Amiry

Pantheon Books; 224 pages; $23.
Granta Books; £12.99

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Second-world-war spies

Veiled courage

Aug 4th 2005
From The Economist print edition

IT IS extraordinary, 60 years after the second world war, that so much still remains unexplained. The first of these two books sheds much light on one section of the Special Operations Executive (SOE), which was set up in 1940 to organise agents abroad, and the other describes the fate, hitherto unclear, of *HMS Fidelity* in December 1942. Both involve female spies.

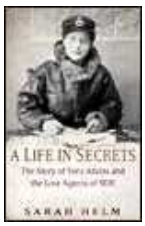
It was in 1942 that SOE began recruiting women. Young women, fluent French speakers, were sought by the French section (F section) for dropping into occupied France to co-ordinate agents on the ground and to send information back by wireless. Maurice Buckmaster was the head of F section and Vera Atkins an intelligence officer who joined SOE in 1941 and became very powerful within it. In 1943, her job was to prepare the agents, in particular, the young women, or her "girls", as she often called them. More than three dozen women were dispatched. Many fell within a short time into enemy hands, the Germans seizing their wirelesses.

Wishful thinking on Buckmaster's part seems to have made him ignore the glaring clues that things had gone wrong. London signalled back to one agent: "You have forgotten your double security check." Once captured, the women disappeared. After the war, Atkins made it her mission to uncover the fates of her agents, so many of whom had perished—at Ravensbruck, Natzweiler and Dachau.

Sixty years on, Sarah Helm records her endeavours—interviewing camp *Kommandants*, attending war-crimes trials—in detail. Ms Helm, a British journalist, brings her training into play when meeting survivors and descendants. She describes their homes, their mannerisms, even the way they open the door. The result is a thorough and fascinating reconstruction of a tragedy that encompassed treachery, naivety, inter-service rivalry and, everywhere, bravery.

And Vera herself? Brought up in comfort and style in Romania in a Jewish family named Rosenberg, educated in Switzerland, she was dedicated, clever, reserved and handsome—a chain-smoker to the end. It is just conceivable that she paid bribes to the *Abwehr* (the German military intelligence) early in the war to let a cousin escape. She did not become a naturalised British citizen until 1944. Inevitably her loyalty has on occasion been questioned. Ms Helm portrays her as an impressive and elusive woman.

A Life in Secrets: The Story of Vera Atkins and the Lost Agents of SOE
By Sarah Helm



Little, Brown; 496 pages; £20

Buy it at
Amazon.com
Amazon.co.uk

Claude and Madeleine: A True Story of Love, War and Espionage
By Edward Marriott

Picador; 250 pages; £14.99

Buy it at
Amazon.com
Amazon.co.uk

Edward Marriott's book tells the story of a passionate, eccentric and aggressive Frenchman named Claude Peri, who, following the fall of France in 1940, commandeered a merchant ship, *Le Rhin*, and at risk of death placed himself and it at the disposal of British naval intelligence.

The ship was transformed into *HMS Fidelity* and he into Jack Langlais. As its captain, he would lash out indiscriminately at members of the crew and employed for the smallest of misdemeanours "somewhat medieval methods of punishment". He got his mistress, Madeleine Bayard, the job of cipher officer on board ship. As Miss Barclay, she was the only woman to have served on a British fighting ship during the war. They had met in French colonial Vietnam where they had links with the French secret service.

The *Fidelity*, part of the Atlantic convoy, was torpedoed in 1942. At the time she was under secret orders to sail on to Burma. There were no survivors. Mr Marriott has worked hard to uncover what he

could about what use the *Fidelity* was put to during the war, but the material is still thin and he has embellished it with purplish passages. “To say that the Frenchman concerned was amazingly eccentric would be an understatement” wrote one contemporary diarist. It is a strange tale of an unpleasant man.

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By Sarah Helm.
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New fiction

Scrapings

Aug 4th 2005
From The Economist print edition

BRET EASTON ELLIS is the bestselling author of two cold-hearted novels, “Less than Zero” and “American Psycho”. He was a leading member of the literary “brat pack” of the 1980s. His agent is a well-known New Yorker named Binky Urban and his best friend is Jay McInerney.

In case the well-read consider such a thumbnail sketch to be condescending, this Bret Easton Ellis is also the protagonist of the eponymous author's new novel. The choice to make his main character a carbon copy of himself is by turns vain, lazy and entertaining.

Entertainment is not a quality to be dismissed. In the main, “Lunar Park” is a cracking good horror story—about a narcissistic writer who marries a (fictional) actress with whom he had previously fathered a child. As if Mr Ellis's version of risk-averse, obsessively normative suburbia weren't nightmarish enough, a toy begins to bite, a local murderer re-enacts the gruesome killings in “American Psycho” and neighbourhood boys start to disappear. Meanwhile, his house sheds its cool modern colours, melting into the pink stucco and green shag of Mr Ellis's childhood home.

Not to spoil the ending, but many a reader will suspect that the hairy, voracious blob latterly slobbering about the house is Mr Ellis's ego.

Mr Ellis seems to believe that his novel exceeds mere entertainment. Yet as an apologia for an arrogant, abusive past, it reads as disingenuous; there is no soul-searching here, save as self-promotion. His attempt to pass serious comment on the legacy that fathers pass on to their sons falls quite flat, and his implicit reflection on the relationship between fact and fiction is self-conscious and boring.

Frustratingly, the best of this novel lies in those rare interstices in which Mr Ellis is not talking about Mr Ellis. His descriptions of modern parenting and education are hilarious and mortally accurate. (At the son's school, parents are handed a complimentary “stress basket”.) Stylistically, Mr Ellis is a fine writer, and at his best when he uses a scalpel on other people, rather than a butter knife on himself.

Lunar Park.
By Bret Easton Ellis
Knopf; 320 pages; $25.
To be published in October by Picador in Britain, £16.99

Lunar Park
By Bret Easton Ellis

Knopf; 320 pages; $25.
To be published in Britain by Picador in October; £16.99

Buy it at
Amazon.com
Amazon.co.uk

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Economist.com PRINT EDITION BOOKS AND ARTS
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The Salem witch trials

Judge not

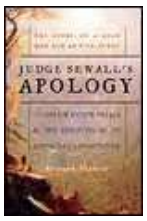
Aug 4th 2005
From The Economist print edition

FEW events in American history are more bizarre than the Salem witch trials of 1692. The trials, which took place in a Massachusetts village, ended with 20 people condemned to death for witchcraft, while their accusers, many of them small girls, writhed in a frenzy.

The task of adjudicating the chaos fell partly to Samuel Sewall, an English-born Harvard graduate. Sewall, one of nine judges at the trials, watched as girls had fits and pointed fingers. He watched as the evidence grew shakier—at one point, some of the accused were examined near the anus for "teats", where evil supposedly suckled. In the most excruciating case, an ageing and respected Salem citizen, Rebecca Nurse, was cleared of the charges. But the girls redoubled their screaming upon hearing the verdict, whereupon the jury reconsidered their verdict and she was hanged.

Richard Francis argues that the "essential issue of the Salem witch trials was religion". The colonists had come to America to start afresh, away from the troubles of the English church. The trials had indeed come hard on the heels of religious turmoil in England that was to culminate in the Glorious Revolution. Sewall and other citizens believed that America's sparse settlements, already vulnerable to Indian attacks, could be extinguished by evildoers unless prompt action was taken.

Judge Sewall's Apology: The Salem Witch Trials and the Forming of an American Conscience
By Richard Francis



Fourth Estate; 432 pages; $25.95 and £20

Buy it at Amazon.com

Besides sitting in judgment, Sewall made two striking contributions to history. First, he kept a wonderfully detailed diary. Thus, for example, we know that he dined once with one of the accused, George Burrows, a clergyman whose case was not helped when he admitted being unable to recall the last time he had taken communion. So meticulous are Sewall's writings that we know all about his dreams and what he ate for dinner: the "good Currant suet Pudding" impressed him during a 1689 trip to England.

This faithful record magnifies Sewall's second contribution. In 1697, in Boston's Old South Church, he told the congregation that he accepted "blame and shame" for the trials. None of the other judges joined him in repenting, though one, Nathaniel Saltonstall, had quit in disgust midway through the proceedings.

Why apologise? First, as Mr Francis shows, the public soon began rethinking the trials. Influential men like Thomas Brattle, a Boston merchant, were pouring scorn on the proceedings. Brattle argued that the "blind, nonsensical girls" were either lying or seeing delusions created by the devil. Second, Sewall's children kept dying. Religious to the core, the judge believed that God was judging him.

This is compelling stuff. It is unfortunate, then, that Mr Francis strays from the trials and apology. He raises the matter of England's religious relationship with America, but fails to discuss the reaction in England to Salem and Sewall's recanting, which is a shame given that the author himself is British. More context on earlier cases of witchcraft would have helped too. The book ends with a description of the sexagenarian Sewall's courtings after his wife's death. Such juicy diary details would serve a birth-to-death biography well; in this case, they could usefully have been swapped for more material on the absorbing central subject.

Judge Sewall's Apology: The Salem Witch Trials and the Forming of an American Conscience.
By Richard Francis.
Fourth Estate; 432 pages; $25.95.

Fourth Estate; 432 pages; £20

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Amazon worldwide bestselling travel books

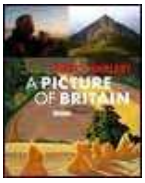
The big book index

Aug 4th 2005
From The Economist print edition

Let the plane take the strain

HOLIDAYS are here at last. Travellers who want hard facts to go with their factor 30 are buying road atlases, island guides and advice about where to go, what not to eat and which airline has a corpse cupboard to cope with the number of people who die in the air.

1. A Picture of Britain.
By David Dimbleby. *Tate Publishing; 224 pages; £19.99*



In a celebration of the British landscape and the art it has inspired over the centuries, a veteran television broadcaster explains how the nation's lochs, hills and dales have captivated generations of painters from Constable to Lowry and from Turner to Nash.

Click to buy from Amazon.co.uk

2. 1,000 Places to See Before You Die.
By Patricia Schultz. *Workman; 972 pages; $18.95*

Whether it is the Lewis and Clark trail you long to visit, or Robert Louis Stevenson's home in Western Samoa, here is the ultimate list of the fun and the unforgettable.

Click to buy from Amazon.com or Amazon.co.uk

3. Air Babylon.
By Imogen Edwards-Jones & Anonymous. *Bantam; 329 pages; £12.99*

Intrepid British journalist trawls through the highs, the lows and the rapid descents of the travel industry and reveals much that you might prefer not to know.

Click to buy from Amazon.com or Amazon.co.uk

4. Fast Food Nation: The Dark Side of the All-American Meal.
By Eric Schlosser. *Perennial; 400 pages; $14.95. Penguin; £8.99*

From hamburgers to French fries, Eric Schlosser offers up enough supersize revelations to give you a Big Mac attack.

Click to buy from Amazon.com or Amazon.co.uk

5. The Devil's Teeth: A True Story of Obsession and Survival among America's Great White Sharks.
By Susan Casey. *Henry Holt; 304 pages; $25*

Two biologists study the packs of great whites that gorge on seals and sea lions of California's Fallaron islands.

Click to buy from Amazon.com or Amazon.co.uk

6. Geldof in Africa.
By Bob Geldof. *Century; 256 pages; £20*

It all started with Live Aid. Twenty years after his biggest concert, Ireland's only pop knight revisits his African haunts and is made an honorary king.

Click to buy from Amazon.com or Amazon.co.uk

7. AA Big Road Atlas Britain 2006.
AA Publishing; 152 pages; £9.99

Happiness is knowing where you are heading. Never leave home without this invaluable guide to British highways and byways.

Click to buy from Amazon.com or Amazon.co.uk

8. The Ultimate Kauai Guidebook: Kauai Revealed.
By Andrew Doughty. *Wizard; 256 pages; $14.95*

In a crowded market, this guide combines expert knowledge and a clear design to help you get the most out of your Hawaiian-island holiday without wasting time.

Click to buy from Amazon.com or Amazon.co.uk

9. Into the Wild.
By Jon Krakauer. *Anchor; 224 pages; $12.95. Pan Macmillan; £7.99*

Why did 18-year-old Christopher McCandless trade a bright future—a university education, material comfort, uncommon ability and huge charm—for death by starvation in an abandoned bus in the woods of Alaska? Nearly a decade after it was published, Jon Krakauer's odyssey still leaps off the shelves.

Click to buy from Amazon.com or Amazon.co.uk

10. Hawaii the Big Island Revealed: The Ultimate Guidebook.
By Andrew Doughty and Harriett Friedman. *Wizard; 304 pages; $14.95*

Hawaii's two best travel writers tell you not only where to go on the big island, but how to get there and whether or not the place is a must-see or a must-skip.

Click to buy from Amazon.com or Amazon.co.uk

Global sales from Amazon.com, Amazon.co.uk, Amazon.de, Amazon.fr and Amazon.jp from July 1st-May 31st 2005. Prices are correct as of August 2nd 2005.

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Economist.com PRINT EDITION OBITUARY
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Obituary

King Fahd

Aug 4th 2005
From The Economist print edition

Fahd ibn Abdel Aziz al-Saud, King of Saudi Arabia, died on August 1st, aged probably 83

Time Life Pictures

POOR King Fahd. He stood upon his going for so long that speculation about the Saudi monarchy had come to centre not on the prince who would replace him, or even on the prince who would replace that prince, but rather on the slightly less geriatric princes who might or might not be next down the line.

It is also a little ironic that the most active period in his fairly indolent life was probably when he was crown prince to his ailing and lethargic half-brother King Khaled. He became king in 1982. But then, after a few years, the Fates turned cruelly against him. He was plagued with ill-health and, by the early 1990s, was becoming forgetful. After a major stroke in 1995, he had to cede all power to his ambitious, if almost equally elderly, half-brother Crown Prince Abdullah, who has now become king officially.

King Fahd's father was Saudi Arabia's prolific founder, Abdel Aziz ibn Saud. As the eldest of the seven sons by the king's favourite wife, Prince Fahd was groomed for power. At the age of only 30 or so, he became education minister. Unkind voices suggest that he was illiterate at the time (he had had a traditional courtly education at the special school for princes in Riyadh and later studied Wahhabi Islam, the strictest form of the creed, in Mecca), but the demands of the new ministry of education were unlikely, at that stage in the kingdom's history, to be all that pressing. He was swiftly promoted to interior minister and then, in effect, to deputy prime minister under his forceful half-brother, King Faisal, who reigned before Khaled.

Prince Fahd was intelligent and subtle, with a most brilliant and disarming smile; but he was said to be lazy, and had a lot of wild oats to sow. He liked the West, and western pleasures in particular. In the 1950s and 1960s he was a playboy enjoying the proceeds of the kingdom's growing oil revenues in the casinos and hotels of Monte Carlo. Even at home he lived life to the full. One former ambassador recalls meeting him at an embassy party with a glass in one hand, a cigarette in the other and a Lebanese beauty on each arm.

But then there was the famous occasion, during King Faisal's reign, when he returned to the kingdom after losing several million dollars at a casino in the south of France. Faisal summoned him to his

presence, and slapped him across the face. From then on, Prince Fahd was more circumspect, applying himself to statecraft and distancing himself from the more corrupt of his freespending relations.

His youthful excesses, however, took their revenge, as they are tiresomely inclined to do. Diabetes was probably one consequence. He was a heavy smoker: another diplomat remembers him smoking two cigarettes at the same time, one for the left hand, the other for the right, with an ashtray for each. He was also overweight, causing weak knees. Being king ensured that special arrangements were made. One of his palaces had the world's smallest escalator, just one step, so he would not strain himself walking between two rooms with different floor levels.

The league of gentlemen

His last years were bad, and to be forgotten. He was Saudi Arabia's longest-serving monarch after his father, Abdel Aziz. But the title of king remained to him as a dignity only; talks of any substance were conducted with Prince Abdullah.

Better to remember his middle years. And, indeed, there is quite a lot he should be credited with, albeit in a modest way. As education minister, flush with oil money, he built great numbers of schools and universities; he also agreed with educating women, though in practice he did not advance them much. And he set up, or rather began the setting up, of a rather more systematic form of government. In 1992 he issued a decree setting out formally the process of succession. He also planted what may be the earliest roots of democracy: an appointed consultative council of senior gentlemen.

In 1981, as crown prince, he proposed an eight-point peace plan to end the Arab-Israeli conflict, which was adopted, after controversy, by the Arab League. (It laid down that Israel should exist in peace so long as it withdrew from all the territory occupied in the 1967 war, and let all the refugees return. Unsurprisingly, Israel threw it out.) He also helped, as a founder-member of the Tripartite Arab Commission, to bring Lebanon's civil war to an end; he was host to a meeting of the warring factions that resulted in the signing of the 1989 Taif accord.

But he will probably be best remembered as the leader who, against opposition from within the royal family, and defying the Saudi tendency to delay awkward decisions, brought American forces into Saudi Arabia in 1991 to defend the kingdom against Iraq's Saddam Hussein. Saudi Arabia was duly saved, but the presence of half-a-million foreign fighting men and women was a deep shock to both Saudi self-esteem and the country's conservative Muslim culture. King Fahd had no truck with terror; on his watch, though probably by Prince Abdullah's act, Osama bin Laden was stripped of his citizenship, and thousands of radical preachers were ejected from their mosques. But the consequences of his cosiness with America are still being played out.

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Overview

Aug 4th 2005
From The Economist print edition

King Fahd's death in Saudi Arabia, hurricane fears in the Gulf of Mexico and refinery closures in America drove **oil prices** higher. On August 3rd, West Texas Intermediate crude set a record of $62.50 a barrel.

America's GDP growth slowed to an annual rate of 3.4% in the second quarter, from 3.8% in the first quarter, but year-on-year growth was unchanged at 3.6%. Americans saved 0.0% of their disposable income in June. Their personal-saving rate has been this low only once before, in October 2001. They disposed of some of their income at the car showrooms in July, buying 20.8m vehicles, at a seasonally-adjusted annual rate, the highest total since 2001.

Inflation in the **euro area** rose to 2.2% in the year to July, probably because of oil prices. The latest clutch of business surveys were uniformly positive. The European Commission's measure of economic sentiment rose in July to its highest level since March. The Reuters/NTC surveys of purchasing managers in July reported expanding activity in both manufacturing and services.

Japan's industrial production grew by 0.1% in the year to June. Consumer prices fell by 0.5% in the same period. Core consumer prices, eyed by the Bank of Japan, fell by 0.2% in the year to June, after remaining flat in the year to May. The labour market brought better news, with unemployment falling to 4.2% in June, from 4.4% the month before.

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Output, demand and jobs

Aug 4th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q1	+ 2.8	+ 2.3	+ 3.1	+ 1.2	Q1	+ 1.6	Q2	5.0	Jun	5.6
Austria	+ 2.0	Q1	+ 0.8	+ 1.9	+ 2.0	+ 5.6	May	+ 3.8	May	5.1	Jul	4.9
Belgium	+ 1.4	Q2	+ 1.2	+ 1.2	+ 1.9	+ 1.1	May	+ 3.4	Apr	12.3	Jun†	12.4
Britain	+ 1.7	Q2	+ 1.5	+ 2.1	+ 2.1	– 1.9	May	+ 1.7	Jun	4.8	May††	4.8
Canada	+ 3.3	Q1	+ 2.3	+ 2.7	+ 3.0	+ 1.8	May	+ 6.4	Apr	6.7	Jun	7.2
Denmark	+ 0.8	Q1	+ 0.6	+ 2.0	+ 2.2	+ 2.0	May	+ 7.6	Jun	5.8	Jun	6.5
France	+ 1.8	Q1	+ 1.4	+ 1.5	+ 1.9	– 0.2	May	+ 1.5	May	10.1	Jun	10.0
Germany	+ 1.1	Q1	+ 4.2	+ 1.1	+ 1.3	+ 0.8	May	+ 1.9	Jun	11.6	Jul§	10.6
Italy	– 0.2	Q1	– 2.0	– 0.1	+ 1.2	– 2.1	May	– 0.3	May	7.8	Mar	8.2
Japan	+ 1.3	Q1	+ 4.9	+ 1.7	+ 1.7	+ 0.1	Jun	+ 3.1	Jun	4.2	Jun	4.6
Netherlands	– 0.5	Q1	– 3.2	+ 0.4	+ 1.5	– 1.0	May	– 2.8	Apr	6.7	Jun**	6.4
Spain	+ 3.3	Q1	+ 3.5	+ 3.1	+ 2.8	+ 0.5	May	+ 1.4	Jun	9.8	Jun	11.1
Sweden	+ 1.4	Q1	+ 1.1	+ 1.9	+ 2.6	– 0.9	May	+ 9.6	Jun	7.1	Jun†	5.8
Switzerland	+ 0.8	Q1	+ 0.2	+ 0.8	+ 1.5	– 0.3	Q1	– 0.4	May	3.6	Jun†	3.7
United States	+ 3.6	Q2	+ 3.4	+ 3.6	+ 3.3	+ 3.9	Jun	+ 7.6	Jun	5.0	Jun	5.6
Euro area	+ 1.4	Q1	+ 1.9	+ 1.3	+ 1.7	+ 0.1	May	+ 0.9	Jun	8.7	Jun	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.0	Q1	+ 0.5	na	na	– 9.8	Jun	+ 6.3	May	8.7	Jun†	8.9
Greece	+ 3.5	Q1	na	na	na	– 2.3	May	+ 3.5	Apr	9.9	Mar	10.8
Iceland	+ 2.9	Q1	na	na	na	na		na		2.2	May†	3.3
Ireland	+ 2.4	Q1	+ 1.0	na	na	– 3.4	May	+ 4.6	May	4.2	Jun	4.4
Luxembourg	+ 3.1	Q1	na	na	na	+ 4.6	Apr	– 1.8	Jun	4.4	Jun	3.9
New Zealand	+ 1.9	Q1	+ 1.5	na	na	+ 3.5	Q4	+ 5.8	Q1	3.9	Q1	4.2
Norway	– 0.8	Q1	+ 2.2	na	na	+ 0.1	May	+ 7.2	May	4.6	May**	4.3
Portugal	+ 0.1	Q1	+ 0.8	na	na	+ 1.2	Jun	+ 6.6	Jun	7.5	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Mar-May; claimant count rate 2.8% in Jun.
§EU harmonised rate 9.2% in Jun. **Apr-Jun.

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Prices and wages

Aug 4th 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q2	+ 2.5	+ 2.7	+ 2.6	+ 6.9	Q2	+ 2.8	+ 4.5	Q1	+ 5.0
Austria	+ 2.3	Jun	+ 2.3	+ 2.1	+ 1.7	+ 0.7	Jun	+ 5.9	+ 2.2	Jun	+ 2.2
Belgium	+ 3.1	Jul	+ 2.4	+ 2.3	+ 1.8	+ 2.2	Jun	+ 4.2	+ 2.6	Apr	+ 2.3
Britain	+ 2.0	Jun*	+ 1.6	+ 1.9	+ 1.9	+ 2.4	Jun	+ 2.6	+ 4.1	May†	+ 4.6
Canada	+ 1.7	Jun	+ 2.5	+ 2.1	+ 2.2	+ 0.2	Jun	+ 7.0	+ 1.1	May	+ 3.9
Denmark	+ 1.8	Jun	+ 1.1	+ 1.5	+ 1.7	+ 3.9	Jun	+ 2.4	+ 3.1	Q1	+ 3.3
France	+ 1.7	Jun	+ 2.4	+ 1.8	+ 1.5	+ 2.9	Jun	+ 2.2	+ 2.9	Q1	+ 2.8
Germany	+ 1.9	Jul	+ 1.8	+ 1.6	+ 1.3	+ 2.2	Jun	+ 3.5	+ 0.6	May	+ 1.9
Italy	+ 2.1	Jul	+ 2.3	+ 2.1	+ 1.9	+ 3.7	Jun	+ 3.2	+ 3.0	Jun	+ 3.3
Japan	− 0.5	Jun	nil	− 0.1	+ 0.3	+ 1.4	Jun	+ 1.5	− 0.1	Jun	+ 1.8
Netherlands	+ 1.6	Jun	+ 1.4	+ 1.4	na	+ 4.9	Jun	+ 3.6	+ 0.6	Jun	+ 1.4
Spain	+ 3.3	Jul	+ 3.4	+ 3.1	+ 2.8	+ 4.4	Jun	+ 4.0	+ 2.5	Q1	+ 3.2
Sweden	+ 0.6	Jun	+ 0.5	+ 0.5	+ 1.3	+ 3.2	Jun	+ 1.5	+ 1.1	May	+ 3.1
Switzerland	+ 1.2	Jul	+ 0.9	+ 1.1	+ 1.1	+ 0.5	Jun	+ 1.5	+ 0.9	2004	+ 1.4
United States	+ 2.5	Jun	+ 3.3	+ 2.9	+ 2.6	+ 3.6	Jun	+ 4.3	+ 2.7	Jun	+ 2.0
Euro area	+ 2.2	Jul	+ 2.3	+ 2.0	+ 1.6	+ 4.3	Jun	+ 2.4	+ 3.1	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.1	Jun	− 0.1	na	na	+ 4.0	Jun	+ 1.0	+ 4.1	Q1	+ 4.2
Greece	+ 3.3	Jun	+ 2.8	na	na	+ 5.0	Jun	+ 4.8	na		na
Iceland	+ 3.5	Jul	+ 3.6	na	na	+ 3.7	Jul	+ 5.3	+ 6.3	Jun	+ 5.1
Ireland	+ 2.1	Jun	+ 2.3	na	na	− 0.3	Jun	+ 1.3	+ 6.4	Q1	+ 3.9
Luxembourg	+ 2.2	Jun	+ 2.6	na	na	+ 6.7	May	+ 7.7	+ 0.4	Apr	+ 4.7
New Zealand	+ 2.8	Q2	+ 2.4	na	na	+ 4.2	Q1	− 0.6	+ 2.5	Q1	+ 2.2
Norway	+ 1.7	Jun	+ 1.3	na	na	+19.3	Jun	+12.0	+ 3.7	Q1	+ 3.5
Portugal	+ 1.6	Jun	+ 2.7	na	na	+ 3.7	Jun	+ 2.3	− 3.0	May	+ 0.8

*RPI inflation rate 2.9% in Jun. †Mar-May.

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Economic forecasts

Aug 4th 2005
From The Economist print edition

The Economist poll of forecasters, August averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2005	2006	2005	2006	2005	2006	2005	2006
Australia	2.1/3.0	2.7/3.5	2.3 (2.4)	3.1	2.7	2.6	–5.9(–5.8)	–5.6 (–5.5)
Austria	1.6/2.3	1.5/2.2	1.9	2.0	2.1	1.7	–0.3(–0.4)	–0.3 (–0.4)
Belgium	0.9/1.4	1.5/2.3	1.2	1.9	2.3 (2.1)	1.8 (1.7)	2.9 (3.0)	2.8 (3.0)
Britain	1.8/2.8	1.7/2.6	2.1 (2.2)	2.1 (2.2)	1.9	1.9	–2.5(–2.4)	–2.6 (–2.5)
Canada	2.3/3.0	2.5/3.7	2.7 (2.8)	3.0	2.1	2.2	1.3	1.2 (1.1)
Denmark	1.5/2.4	1.8/2.5	2.0 (2.1)	2.2	1.5 (1.4)	1.7	2.0	1.8 (1.9)
France	1.3/1.7	1.6/2.4	1.5	1.9	1.8 (1.7)	1.5 (1.6)	–0.7(–0.6)	–0.5 (–0.3)
Germany	0.9/1.4	1.0/1.6	1.1	1.3	1.6 (1.4)	1.3 (1.1)	3.7 (3.5)	3.5 (3.3)
Italy	–0.6/3.0	0.2/2.8	–0.1 (–0.2)	1.2 (1.1)	2.1 (2.0)	1.9	–1.4(–1.2)	–1.5 (–1.3)
Japan	1.2/2.5	1.0/2.8	1.7 (1.6)	1.7 (1.8)	–0.1	0.3 (0.2)	3.5 (3.6)	3.4 (3.5)
Netherlands	0.1/1.2	0.8/2.2	0.4 (0.5)	1.5	1.4	na	3.7	3.6
Spain	2.8/3.3	2.2/3.2	3.1	2.8	3.1 (3.0)	2.8 (2.7)	–5.4(–5.2)	–5.5 (–5.3)
Sweden	1.5/2.7	1.8/2.9	1.9	2.6	0.5	1.3 (1.4)	5.7 (7.0)	5.2 (6.4)
Switzerland	0.3/1.2	0.7/1.8	0.8 (0.9)	1.5	1.1	1.1	11.2(11.4)	10.8
United States	3.2/4.7	2.2/5.3	3.6 (3.5)	3.3 (3.2)	2.9	2.6 (2.5)	–6.3	–6.2
Euro area	1.1/1.5	1.2/2.0	1.3	1.7	2.0 (1.9)	1.6 (1.5)	0.4 (0.5)	0.4

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has raised its growth forecasts for the United States to 3.6% in 2005 and 3.3% in 2006, up from 3.5% and 3.2% respectively last month. It has lowered its growth forecasts for Britain to 2.1% a year in both 2005 and 2006, down from 2.2% in July. It now expects Japan to grow by 1.7% a year in both 2005 and 2006, with consumer prices increasing by 0.3% in 2006. The panel is forecasting inflation in the euro area of 2.0% in 2005 and 1.6% in 2006, up from 1.9% and 1.5% respectively last month.

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Money and interest rates

Aug 4th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Aug 3rd 2005)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+ 5.3	+10.6	Jun	5.65	5.45	5.22	5.30	5.71	6.30
Britain	+ 3.7	+11.0	Jun	4.56	4.94	4.23	4.37	5.07	5.19
Canada	+ 8.4	+10.4	Jun	2.60	2.05	3.07	3.98	4.75	5.25
Denmark	+21.3	+16.8	Jun	2.20	2.20	2.23	3.27	4.27	4.92
Japan	+ 4.4	+ 1.7	Jun	0.02	0.03	0.13	1.37	1.78	1.45
Sweden	+ 1.8	+ 9.4	Jun	1.45	1.99	2.03	3.17	4.44	2.91
Switzerland	– 2.5	+ 4.7	Jun	0.76	0.54	1.00	2.02	2.70	1.98
United States	+ 2.1	+ 4.8	Jun	3.54	1.65	4.01	4.30	4.43	5.24
Euro area†	+10.5	+ 7.5	Jun	2.13	2.12	2.28	3.29	4.13	3.54

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.50%, Japan No. 270 1.37%. Central bank rates: US fed funds 3.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 4th 2005
From The Economist print edition

2000=100

	Jul 26th	Aug 2nd*	% change on one month	% change on one year
Dollar index				
All items	134.8	136.9	+ 2.1	+10.3
Food	128.7	130.2	– 0.6	+ 8.9
Industrials				
All	142.6	145.4	+ 5.3	+11.9
Nfa†	135.2	135.0	– 0.2	+ 4.4
Metals	146.6	151.1	+ 8.3	+16.0
Sterling index				
All items	117.3	117.2	+ 1.1	+13.5
Euro index				
All items	103.7	103.7	– 0.4	+ 8.9
Yen index				
All items	140.4	141.4	+ 1.7	+10.9
Gold				
$ per oz	424.30	432.65	+ 2.2	+10.5
West Texas Intermediate				
$ per barrel	59.10	61.89	+ 3.9	+40.3

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Aug 4th 2005
From The Economist print edition

Market indices

	Aug 3rd	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,326.3	4,347.6	3,905.5	– 0.5	– 0.5	+ 6.7	+ 5.1
Austria (ATX)	3,204.2	3,204.2	2,415.0	+ 4.0	nil	+31.8	+19.4
Belgium (Bel 20)	3,269.7	3,269.7	2,958.8	+ 1.6	–11.2	+11.5	+ 1.0
Britain (FTSE 100)	5,332.3	5,332.3	4,783.6	+ 1.3	–23.1	+10.8	+ 2.7
Canada (Toronto Composite)	10,598.8	10,621.2	9,006.2	+ 0.9	– 6.9	+14.6	+13.2
Denmark (KBX)	324.9	324.9	257.8	+ 1.9	nil	+26.0	+13.8
France (SBF 250)	3,124.7	3,128.9	2,633.6	+ 1.5	–28.8	+18.6	+ 7.5
(CAC 40)	4,495.5	4,503.3	3,816.1	+ 1.4	–35.1	+17.6	+ 6.6
Germany (DAX)*	4,923.1	4,932.9	4,178.1	+ 1.4	–39.0	+15.7	+ 4.8
Italy (S&P/MIB)	33,896.0	33,931.0	30,645.0	+ 0.7	–32.4	+ 9.7	– 0.6
Japan (Nikkei 225)	11,981.8	11,981.8	10,825.4	+ 1.2	–69.2	+ 4.3	– 3.8
(Topix)	1,212.0	1,212.0	1,109.2	+ 1.1	–58.0	+ 5.4	– 2.8
Netherlands (AEX)	396.9	398.0	347.0	+ 0.5	–43.4	+14.0	+ 3.3
Spain (Madrid SE)	1,095.3	1,095.3	950.9	+ 0.5	– 4.4	+14.2	+ 3.5
Sweden (Affarsvarlden Gen)	261.9	262.2	218.9	+ 1.1	–34.6	+18.4	+ 3.2
Switzerland (Swiss Market)	6,658.1	6,672.2	5,669.6	+ 1.5	–20.8	+16.9	+ 5.2
United States (DJIA)	10,697.6	10,940.6	10,012.4	+ 0.6	– 8.7	– 0.8	– 0.8
(S&P 500)	1,245.0	1,245.0	1,137.5	+ 0.7	–18.5	+ 2.7	+ 2.7
(NASDAQ Comp)	2,216.8	2,218.2	1,904.2	+ 1.4	–56.1	+ 1.9	+ 1.9
Europe (FTSEurofirst 300)†	1,187.1	1,189.4	1,038.6	+ 1.1	–30.4	+13.9	+ 3.3
Euro area (FTSE Euro 100)†	1,017.8	1,018.7	894.4	+ 1.0	–34.4	+13.0	+ 2.4
World (MSCI)‡	1,204.7	1,204.7	1,115.0	+ 1.8	–16.8	+ 3.0	+ 3.0
World bond market (Citigroup)††	637.5	662.3	626.9	+ 1.1	– 3.7	– 4.3	– 4.3

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 4th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Aug 3rd	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Aug 3rd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 17.7 Jun	− 42.4 Q1	− 5.9	− 5.6	119.2	109.9	1.30	1.42	2.31	1.60	1.17	+ 0.9
Austria	− 1.6 May	+ 0.5 May	− 0.3	− 0.3	104.5§	103.9	0.81	0.83	1.45	–	0.73	− 2.0
Belgium	+ 16.5 May	+ 12.2 Mar	+ 2.9	+ 2.8	105.2§	104.3	0.81	0.83	1.45	–	0.73	− 0.5
Britain	−111.9 May	− 44.0 Q1	− 2.5	− 2.6	98.0	102.6	0.56	0.55	–	0.69	0.51	− 2.9
Canada	+ 47.5 May	+ 20.2 Q1	+ 1.3	+ 1.2	119.1	110.1	1.21	1.31	2.16	1.49	1.09	+ 1.2
Denmark	+ 9.2 May	+ 11.0 May	+ 2.0	+ 1.8	106.1	105.7	6.06	6.17	10.8	7.46	5.45	+ 1.8
France	− 26.0 May	− 24.6 May	− 0.7	− 0.5	107.8§	106.8	0.81	0.83	1.45	–	0.73	− 3.0
Germany	+195.8 May	+105.7 May	+ 3.7	+ 3.5	105.7§	104.5	0.81	0.83	1.45	–	0.73	− 3.5
Italy	− 6.8 May	− 21.5 May	− 1.4	− 1.5	77.2§	76.5	0.81	0.83	1.45	–	0.73	− 4.4
Japan	+115.9 May	+167.8 May	+ 3.5	+ 3.4	85.8	86.4	111	111	198	137	–	− 6.1
Netherlands	+ 40.7 May	+ 33.9 Q1	+ 3.7	+ 3.6	104.6§	103.7	0.81	0.83	1.45	–	0.73	− 2.2
Spain	− 88.1 May	− 69.9 Apr	− 5.4	− 5.5	77.6§	77.2	0.81	0.83	1.45	–	0.73	+ 0.5
Sweden	+ 22.5 Jun	+ 29.7 Q1	+ 5.7	+ 5.2	95.8	97.4	7.62	7.63	13.6	9.39	6.86	+ 0.8
Switzerland	+ 7.3 Jun	+ 40.2 Q1	+11.2	+10.8	106.3	107.0	1.26	1.27	2.25	1.56	1.14	− 1.0
United States	−717.9 May	−717.0 Q1	− 6.3	− 6.2	85.4	87.6	–	–	1.78	1.23	0.90	− 4.1
Euro area	+ 63.5 May	+ 23.2 May	+ 0.4	+ 0.4	117.0	114.3	0.81	0.83	1.45	–	0.73	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.8 May	+ 6.5 May	na	na	82.1§	81.4	0.81	0.83	1.45	–	0.73	+ 1.3
Greece	− 33.5 Apr	− 15.7 May	na	na	60.2§	59.8	0.81	0.83	1.45	–	0.73	− 3.8
Iceland	− 0.9 Jun	− 1.4 Q1	na	na	109.0**	96.5	64.8	71.7	115	79.8	58.3	+ 1.1
Ireland	+ 40.9 May	− 3.1 Q1	na	na	95.3§	93.8	0.81	0.83	1.45	–	0.73	− 0.7
Luxembourg	− 4.4 May	+ 3.0 Q1	na	na	105.2§	104.3	0.81	0.83	1.45	–	0.73	− 0.8
New Zealand	− 3.5 Jun	− 7.0 Q1	na	na	134.9	128.6	1.47	1.55	2.62	1.81	1.32	+ 3.2
Norway	+ 40.4 Jun	+ 37.9 Q1	na	na	111.9	103.2	6.58	6.97	11.7	8.10	5.92	+ 14.4
Portugal	− 20.1 Apr	− 15.3 May	na	na	94.5**	93.6	0.81	0.83	1.45	–	0.73	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, March average.

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The Economist commodity price index

Aug 4th 2005
From The Economist print edition

Our dollar-based commodity index has risen by 60% from its low in October 2001. Measured in euros, however, the index has gained only 17% over the same period.

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Overview

Aug 4th 2005
From The Economist print edition

South Korea's 12-month rate of consumer-price inflation fell to 2.5% in July, its lowest for three years. **Turkey's** inflation rate fell to 7.8% in the same month, but **Thailand's** rate jumped to 5.3%, its highest since 1998.

Russia's stockmarket hit an all-time high, thanks to record oil prices and strong profit forecasts. Share prices have gained 27% in dollar terms since the start of the year.

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Stockmarket listings

Aug 4th 2005
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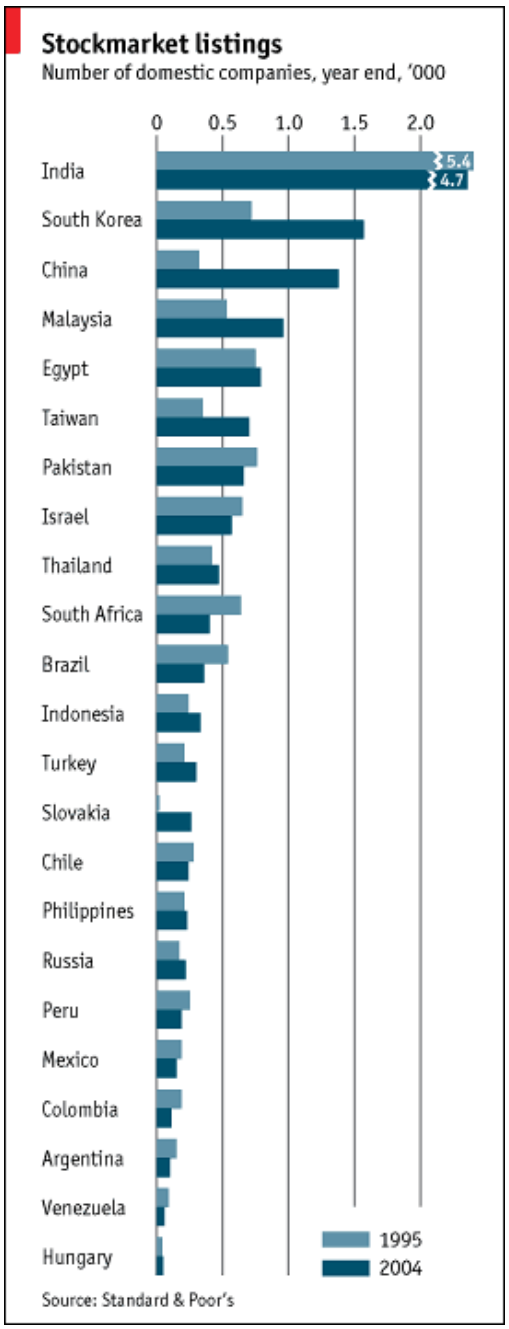
Over the past decade, China, South Korea, Taiwan and Malaysia saw big increases in the number of domestic companies listed on their stock exchanges, according to Standard & Poor's. Slovakia also posted a sharp rise, reflecting the mass privatisations of the 1990s. By contrast, many Latin American companies opted to list on international exchanges, not local ones.



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Economy

Aug 4th 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q2	+16.8	Jun	+ 1.6	Jun	+79.2	Jun	+68.7	2004	711.0	Jun
Hong Kong	+ 6.0	Q1	– 0.6	Q1	+ 1.2	Jun	– 9.7	Jun	+18.5	Q1	122.0	Jun
India	+ 7.0	Q1	+10.8	May	+ 3.3	Jun	–32.4	Jun	– 6.4	Q1	127.0	Jun
Indonesia	+ 6.4	Q1	+10.1	Mar	+ 7.8	Jul	+27.4	Jun	+ 7.8	Q1	33.3	May
Malaysia	+ 5.7	Q1	– 0.4	May	+ 3.2	Jun	+24.0	Jun	+16.7	Q1	74.5	Jun
Philippines	+ 4.6	Q1	+ 5.4	May	+ 7.6	Jun	– 0.1	May	+ 2.9	Mar	15.1	Jun
Singapore	+ 3.9	Q2	+11.1	Jun	– 0.2	Jun	+16.3	Jun	+29.2	Q1	115.2	Jun
South Korea	+ 3.3	Q2	+ 4.1	Jun	+ 2.5	Jul	+26.0	Jul	+23.2	Jun	204.1	Jun
Taiwan	+ 2.5	Q1	+ 1.3	Jun	+ 2.4	Jun	+ 2.7	Jun	+16.9	Q1	253.6	Jun
Thailand	+ 3.3	Q1	+ 8.8	Jun	+ 5.3	Jul	– 6.7	Jun	– 2.2	Jun	47.2	Jun
Argentina	+ 8.0	Q1	+ 2.0	Jun	+ 9.6	Jul	+11.0	Jun	+ 2.8	Q1	21.4	May
Brazil	+ 2.9	Q1	+ 5.5	May	+ 7.3	Jun	+39.9	Jul	+12.6	Jun	60.7	May
Chile	+ 5.7	Q1	+ 7.4	Jun	+ 2.7	Jun	+ 9.0	Jun	+ 1.1	Q1	16.6	Jun
Colombia	+ 3.6	Q1	+ 2.1	May	+ 4.9	Jul	+ 1.5	Apr	– 0.8	Q1	12.5	Jun
Mexico	+ 2.4	Q1	+ 3.0	May	+ 4.3	Jun	– 9.8	Jun	– 8.7	Q1	61.9	May
Peru	+ 7.1	May	+ 9.1	May	+ 1.4	Jul	+ 3.5	May	+ 0.4	Q1	13.0	Jun
Venezuela	+ 7.9	Q1	+28.2	Apr	+15.3	Jul	+22.6	Q1	+14.9	Q1	22.3	May
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 4.7	Jun	– 9.5	Q1	+ 4.4	Q1	17.6	Jun
Israel	+ 4.1	Q1	+ 5.2	May	+ 0.3	Jun	– 7.6	Jun	+ 1.9	Q1	26.5	Jun
South Africa	+ 4.2	Q1	+ 1.2	May	+ 2.8	Jun	– 2.1	Jun	– 8.5	Q1	16.9	Jun
Czech Republic	+ 4.4	Q1	+ 4.0	May	+ 1.8	Jun	+ 0.7	May	– 4.4	Q1	30.1	Jun
Hungary	+ 2.9	Q1	+10.1	May	+ 3.8	Jun	– 2.7	Q1	– 9.2	Q1	17.1	Jun
Poland	+ 2.1	Q1	+ 6.8	Jun	+ 1.4	Jun	– 3.6	May	– 1.0	May	39.3	May
Russia	+ 5.2	Q1	+ 6.9	Jun	+13.3	Jun	+108.6	Jun	+69.2	Q1	147.8	Jun
Turkey	+ 4.8	Q1	+ 2.1	May	+ 7.8	Jul	–38.3	Jun	–18.2	May	35.8	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 7.2	Q1	+11.1	Jun	+ 3.1	Jun	– 2.4	May	– 1.3	May	1.7	May
Latvia	+ 7.4	Q1	+ 9.9	May	+ 6.3	Jun	– 2.7	May	– 1.6	May	2.0	May
Lithuania	+ 8.2	Q2	na		+ 2.0	Jun	– 3.1	May	– 1.5	Q1	3.5	May
Slovakia	+ 5.1	Q1	+ 1.5	May	+ 2.5	Jun	– 2.1	May	– 2.0	Apr	15.7	May
Slovenia	+ 2.6	Q1	+ 1.3	May	+ 2.3	Jul	– 1.3	May	nil	May	8.4	Apr
Pakistan	+ 6.4	2004†	+ 9.6	Jan	+ 8.7	Jun	– 6.2	Jun	– 1.5	Q1	10.4	May
Saudi Arabia	+ 5.2	2004	na		+ 0.3	May	+84.9	2004	+51.5	2004	26.7	May

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Aug 4th 2005
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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 3rd		Dec 31st 2004	
	Aug 3rd	year ago	Aug 3rd	% a year		one week	in local currency	in $ terms
China	8.11	8.28	14.4	2.00	1,164.1	+1.6	– 12.5	– 10.6
Hong Kong	7.77	7.80	13.8	3.55	15,118.5	+2.1	+ 6.2	+ 6.3
India	43.4	46.3	77.3	5.47	7,756.5	+2.0	+ 17.5	+ 17.7
Indonesia	9,755	9,225	17,364	8.97	1,192.2	+1.2	+ 19.2	+ 13.4
Malaysia	3.75	3.80	6.67	2.88	952.6	+2.2	+ 5.0	+ 6.5
Philippines	56.1	55.9	99.9	7.13	1,988.1	+0.7	+ 9.1	+ 9.1
Singapore	1.65	1.72	2.94	2.00	2,365.2	+1.4	+ 14.5	+ 13.3
South Korea	1,018	1,168	1,811	3.50	1,117.1	+2.2	+ 24.7	+ 26.9
Taiwan	31.9	34.0	56.8	1.45	6,455.6	+2.0	+ 5.1	+ 4.5
Thailand	41.2	41.5	73.4	3.20	687.9	+3.3	+ 3.0	– 3.0
Argentina	2.86	3.01	5.09	6.81	1,508.2	+0.4	+ 9.7	+ 14.0
Brazil	2.32	3.06	4.12	19.75	26,714.0	+5.4	+ 2.0	+ 16.9
Chile	560	644	997	3.72	10,042.0	+1.6	+ 12.0	+ 11.2
Colombia	2,309	2,611	4,109	7.12	6,397.1	+5.7	+ 47.2	+ 50.0
Mexico	10.6	11.5	18.9	9.62	14,616.0	+3.1	+ 13.1	+ 18.8
Peru	3.25	3.42	5.79	3.04	4,450.7	+5.7	+ 20.0	+ 20.9
Venezuela	2,607§	2,722§	4,641	10.76	19,146.3	–8.5	– 36.1	– 36.8
Egypt	5.78	6.22	10.28	9.40	42,350.9	+0.7	+ 72.3	+ 81.1
Israel	4.49	4.53	7.99	3.64	711.9	+1.7	+ 10.6	+ 6.4
South Africa	6.45	6.26	11.5	7.10	15,430.8	+2.1	+ 21.9	+ 6.6
Czech Republic	24.2	26.3	43.2	1.81	1,262.2	+0.3	+ 22.3	+ 12.6
Hungary	198	207	353	6.56	21,000.6	+2.3	+ 42.4	+ 29.7
Poland	3.31	3.66	5.89	4.66	30,813.4	+3.2	+ 15.7	+ 4.6
Russia	28.5	29.2	50.7	13.00	780.9‡	+1.3	+ 30.7	+ 27.2
Turkey	1.31	1.48	2.34	16.18	29,727.1	+1.9	+ 19.0	+ 22.2
EM (MSCI)*	1.00	1.00	1.78	na	618.3	+4.1	+ 14.0	+ 14.0
EMBI+†	1.00	1.00	1.78	na	348.7	+0.9	+ 5.8	+ 5.8

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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